Looming Risks Threaten an Essential Channel for Businesses and Nonprofits

This may come as a surprise to some, but even in our digital age direct mail remains a marketing powerhouse. Mail continues to provide the largest response rate of any modern marketing channel making it one of the best and most efficient ways for businesses and nonprofits to connect with customers and donors.

However, as Congress prepares to depart for the August recess, there is one looming issue which threatens to disrupt the postal ecosystem – the very real risk of runaway postal rates next year if the current cap on rates is discarded by the Postal Regulatory Commission (PRC).

This all goes back to 2006 when the Postal Accountability and Enhancement Act (PAEA) was signed into law. The fundamental compromise of the PAEA was to give the Postal Service (USPS) increased pricing flexibility in exchange for giving consumers the benefit of a ten-year cap on rate increases above the Consumer Price Index (CPI) for monopoly products like first class mail.

The good news is that rate cap has worked. Tying rate increases to the CPI has produced positive results for consumers, businesses and nonprofit organizations. It not only brought much needed predictability for mailers, but the cap has forced the USPS to be more efficient and creative in keeping operating costs under control, serving as a much-needed proxy for competitive market forces which does not otherwise exist on monopoly mail services.

Under the cap USPS has had more than adequate revenues to meet controllable and operating costs. In fact, USPS is in the enviable financial position of having over 90% funding for its defined benefit pension plans. Even for retiree health benefits, USPS has 50% funding and has not dipped into those funds in the 10 years since the passage of PAEA.

Currently, the Postal Regulatory Commission is conducting a wide-ranging review of the rate-setting system. Mandated by PAEA, this "ten-year review" is "to determine if the system is achieving the objectives" of the statute (i.e. reduce costs; predictable, stable, just and reasonable rates; high quality service standards; pricing flexibility; adequate revenues for financial stability of the USPS; reduced administrative burdens; enhanced security; etc.). Only if the Commission determines that the system is not achieving the objectives of the statute may the PRC propose an alternative system for setting rates on monopoly products.

As businesses and nonprofit organizations who rely upon reasonable postage rates, our emphatic view is that the CPI-based rate cap established in 2006 has worked well and should not be modified. Far superior to the previous system, the CPI-based cap on monopoly products has met the statutory objectives and helped USPS thrive by providing sufficient revenues along with much needed predictability and fiscal discipline.

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We welcome Congressional efforts to help USPS find additional ways to save costs and be more efficient, and urge both the Commission and Congress to do what is right for consumers and USPS by keeping the rate cap in place.

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