

POSTAL ISSUES UPDATE

SPRING 2009

Postage Price Increase: What's Coming in May (and November)?

The Postal Service has announced price increases for domestic mailing services. Most price changes will take effect May 11.

This is the second pricing change under price cap regulations. The cap in effect for these changes is 3.8%. The cap applies to the average increase for each class of mail – changes in individual prices may be above or below the cap.

First-Class Mail prices will rise an average of 3.77%. The increase for presorted Letters and Postcards is 3.8%, while the price for single-piece Letters and Postcards went up 4.62%.

Standard Mail prices will rise an average 3.78%. Standard Letters are going up 3.83%, while the increase for flats is 2.31%. Given recent double digit declines in Flat-sized mail, the Postal Service said the relatively small increase for Flats is to "maintain the viability of the catalog industry."

Destination entry discounts were enhanced to \$43/M for SCF entry and \$34/M for BMC entry, making the drop shipment of Standard Mail an even more effective postage optimization strategy.

Also, the gap between 5-digit and 3-digit prices for Standard Mail Letters widens to 1.8¢. Gaps between 5-digit and AADC and Mixed-AADC prices also widen. This will provide even more meaningful postage savings for IWCO Direct customers who participate in commingling.

Intelligent Mail® pricing was also announced, although discounts for Full-Service IMb will not go into effect until November 29. The discount will be 0.3¢ for First-Class Mail and 0.1¢ for Standard. (To say the least, this is a much smaller discount than what the mailing industry was hoping for, given the investment needed to participate in Full-Service.)

Talk to your IWCO Direct sales executive about how using commingling, drop shipment, and Intelligent Mail as part of your postage strategy can help you blunt the impact of this postage price increase on your bottom line.

Comparison of Selected Standard Mail and First-Class Prices

	Current	May 2009	% Change
Standard Mail Letters			
<u>Automation</u>			
5-digit	\$0.225	\$0.233	3.56%
3-digit	\$0.241	\$0.251	4.15%
AADC	\$0.244	\$0.253	3.69%
Mixed AADC	\$0.257	\$0.270	5.06%
<u>Enhanced Carrier Route</u>			
Saturation	\$0.179	\$0.182	1.68%
High-density	\$0.190	\$0.193	1.58%
Basic	\$0.234	\$0.262	11.97%
<u>Non-auto Machinable</u>			
AADC	\$0.258	\$0.256	-0.78%
Mixed-AADC	\$0.256	\$0.274	6.64%
First-Class Mail Letters			
<u>Automation</u>			
5-digit	\$0.324	\$0.335	3.40%
3-digit	\$0.346	\$0.357	3.18%
AADC	\$0.351	\$0.360	2.56%
Mixed-AADC	\$0.369	\$0.382	3.52%
<u>Non-auto Machinable</u>			
Presort	\$0.394	\$0.414	5.08%
Single-piece	\$0.420	\$0.440	4.76%

Move Update Enforcement to Begin in May – Mailer Beware

Noncompliance with Move Update regulations that took effect in November will carry hefty consequences beginning May 11.

The regulations require that the addresses used in all presort and automation First-Class and Standard mailings be processed for changes of address within the 95 days before the drop date. The most common move update method for solicitation mailings is NCOA^{LINK} processing.

The penalty for First-Class Mail not meeting the requirements is default to the single-piece rate (44¢ in May), and the penalty for noncompliant Standard Mail is an additional 7¢ surcharge. The penalty rates apply to all pieces in the mailing, creating significant consequences for mailers who aren't compliant. For example, a one million piece Standard mailing would be liable for a \$70,000 surcharge if it was found to be out of compliance.

The Postal Service will now use new software on its MERLIN equipment to test mailings for compliance with Move Update regulations, as well as using MERLIN to ensure compliance with automation and sorting regulations. MERLIN sends a sample of names and addresses from each mailing to the National Customer Support Center (NCSC) for a review to see if the records match the national change of address database, and if so, if the addresses were updated.

Any mailing in which there are five or fewer move update errors is not subject to penalty. If there are six or more errors in a mailing, then the errors cannot exceed 30% of the total address changes found for the sample or the penalty will be assessed. The error threshold will be evaluated every four months, and will get smaller over time.

Move Update Background

- Move Update requirements apply to all First-Class and Standard Mail claiming automation, carrier route or presort discounts.
- The addresses in all such mailings are required to be updated within 95 days of the date the mail is submitted to the Postal Service using an approved address updating process, such as NCOA^{LINK}.
- Any mailing not compliant with these regulations must be presented as single-piece First-Class Mail.
- The Postal Service will verify mailings for Move Update compliance using MERLIN sampling linked to their national change of address database.
- First-Class mailings that fail the verification will be revert to single-piece rates (44¢).
- Standard mailings that fail the verification will be assessed a 7¢ penalty on each piece in the mailing.

IWCO Direct will create and retain appropriate Move Update documentation for all files for which we do the NCOA^{LINK} processing. If Move Update processing is done before the file reaches IWCO Direct, the processing vendor must provide documentation for the Move Update method used. (Just as the processing vendor must supply CASS documentation for files that are CASS certified before reaching IWCO Direct.) Documentation must be received before the mail can be dropped.

Postal Service Announces Plans to Revamp Processing Network

Bill Galligan, USPS SVP Operations, announced to mailers at the February Mailers Technical Advisory Committee (MTAC) meeting that the Postal Service would be re-engineering its ground network, particularly the Bulk Mail Centers (BMC). The Postal Service had previously begun an RFI/RFP process to replace the BMCs with a vendor operated ground network; however that effort has been abandoned due to falling mail volumes.

The Postal Service will instead integrate the BMCs and the Surface Transportation Centers (STC) into a single unified ground transportation network, renaming the facilities Network Distribution Centers (NDC). The ultimate goal is to take the 21 BMC campuses and consolidate the STCs into those sites.

Some facilities will simply funnel mail volumes to associated plants that will build more efficient transportation loads and ship mail directly to processing facilities, bypassing additional transportation hubs. Galligan said that the existing BMC entry discounts for Standard Mail would not be affected by the facility realignment.

The conversion starts in the northeast in April, and will be rolled out on an "aggressive" schedule. Senior management of the Postal Service has already briefed the management associations and unions affected by the changes.



Implementing Intelligent Mail Barcodes (IMb)

The Postal Service has laid out a phased plan for Intelligent Mail barcode (IMb) readiness extending into fall 2009 and beyond. Full-Service and Basic options for Intelligent Mail will be introduced in May 2009. Initially the advantage of Full-Service compared to Basic will be the availability of start-the-clock and address correction information for Full-Service. "Start-the-clock" is confirmation of when mail enters the Postal Service processing network; usually arrival at a destination processing facility.

Beginning in November, the Postal Service will also offer a small price discount for Full-Service users. At that time, First-Class Mail participating in Full-Service will receive a 0.3¢ per piece discount beyond base automation discounts. The Standard Mail discount will be 0.1¢ per piece.

The Postal Service has planned a series of releases for their PostalOne! web portal that will provide the support needed for the planned Intelligent Mail functionality. The first release in May 2009 will provide the basic electronic processing needed to support Full-Service Intelligent Mail.

After that release, mailers who want to participate in Full-Service must go through an "on-boarding" process and test electronic documentation files with the Postal Service beginning May 18. Once mailers have completed the on-boarding process in a test environment, they can begin using Full-Service in the live environment. A second release in November 2009 will support the Full-Service discount, and provide support for additional types of electronic documentation..

IWCO Direct has piloted Intelligent Mail for the past 18 months, and is prepared to support Full-Service as the Postal Service makes the program available throughout 2009. We are certified by the Postal Service for printing Intelligent Mail Barcodes on mailpieces, tray labels, and container labels. We are certified for electronic documentation and electronic statements at all lettershops. King Solutions, our logistics partner, supports the electronic appointment scheduling required for Full Service. Ask your sales executive for a copy of our Frequently Asked Questions about Intelligent Mail, and how IWCO Direct can help you get ready for Full-Service.

Intelligent Mail 101

Full-Service

- Unique Intelligent Mail barcodes required on pieces, trays and pallets;
- Detailed mailing documentation must be presented electronically;
- Must make delivery appointments through the USPS FAST system;
- Can receive start-the-clock and address correction information (May 2009);
- Receives a larger discount than Basic/Postnet (November 2009).

Basic

- Intelligent Mail barcode required on pieces only (do not have to be unique);
- No electronic mailing documentation or FAST appointments required.

Either Basic or Full-Service Intelligent Mail can be used to claim automation discounts, participate in OneCode Confirm mail tracking or OneCode ACS address correction.

Postnet and Planet barcodes will be allowed until May 2011.

Postal Service Releases First Service Performance Measurement Results

The Postal Service has announced the service performance targets against which it will measure itself as well as performance results for the first quarter of FY2009 (October – December). Measuring and reporting service performance is a new requirement established in the Postal Accountability and Enhancement Act of 2006.

Service performance will be reported quarterly by mail class based on the following parameters:

- First-Class Mail has separate delivery standards for single-piece and presorted mail. The Postal Service measures performance of First-Class Mail separately by delivery standard.
- Standard Mail has separate standards for origin-entered (end-to-end) and destination-entered (drop-shipped) mail. The Postal Service measures performance separately by entry type.
- Targets are the percent of mail the Postal Service expects to deliver within the given standard.
- The percent on-time is the actual portion of the mail that was delivered within that standard.
- Performance for Q1 2009 is shown in the table at left.

USPS Service Performance Q1 FY 2009

Mail Class	Target	% On-time
Presort First-Class (overnight)	96.5%	91.2%
Presort First-Class (2-day)	94.0%	87.8%
Presort First-Class (3-4 day)	92.7%	84.2%
Standard Mail (drop-shipped)	90.0%	87.4%
Standard Mail (end-to-end)	90.0%	77.2%



Postal Service Ends FY2008 in Red, Continues Trend into FY2009

Health Care Costs Drive USPS Losses in 2008

As expected, the Postal Service announced a \$2.8 billion loss for FY 2008, which ended September 30. The loss comes despite cost reductions that offset most of the impact of inflationary increases, including cost of living wage adjustments for craft employees and additional fuel costs.

The Postal Service noted that it had operating income of \$2.8 billion for the year, but was pushed into the red by \$5.6 billion in payments to the Retiree Healthcare Benefit Fund (RHBF), mandated by the Postal Accountability and Enhancement Act of 2006. These payments came on top of \$2.3 billion paid in health care premiums for current retirees.

Postal Service Seeks to Extend Benefit Payments

Alan Kessler, former chair of the Postal Service Board of Governors noted, "We no longer believe [the RHBF] payment schedule can be maintained." Postal observers are concerned that the Postal Service has taken on \$7 billion in debt over the past two years, largely to fund HRBP contributions.

The Board, Postal Service management, and the mailing industry are working together to ask Congress to provide the Postal Service relief from some of these benefit payments. The Postal Service proposal would authorize the agency to make its current premium payments from the RHBF, while continuing contributions to the trust fund at the current pace. An unsuccessful attempt was made to include this proposal in the economic stimulus proposal recently signed into law by President Obama. Efforts are ongoing to include the retiree healthcare relief in other legislation later this year.

Volume Declines Accelerate

Overall mail volume declined more than nine billion pieces in FY 2008 (4.5%). Standard Mail fared slightly better, declining "only" 4.3%. Postmaster General John Potter has said he expects FY 2009 "to be another difficult year." To combat the effects of these declines, the Postal Service will pursue unprecedented across-the-board cost reductions – including a reduction of 100 million work

	<u>FY 2008</u>	<u>Change from FY 2007</u>
Financials		
Total revenue	\$75.0 billion	0.0%
Operating expense	\$72.2 billion	0.6%
Operating Income	\$2.8 billion	
RHBF* Payments	\$5.6 billion	
Net Loss	(\$2.8 billion)	
Volume		
Total mail volume	202.7 billion	(4.5%)
First-Class mail volume	91.7 billion	(4.8%)
Standard mail volume	99.1 billion	(4.3%)

hours. In addition, it will focus on opportunities to reverse the downward volume trends. At the request of USPS Mailing Services President Robert Bernstock, the Mailers Technical Advisory Committee (MTAC) has workgroups developing recommendations for growth opportunities for Marketing Mail and First-Class Mail.

No Recovery Expected in FY 2009

The volume and financial slide continued into the Postal Service's FY 2009, as the first quarter became the eighth consecutive losing quarter. Losses amounted to \$348 million on a decline in mail volume of 5.2 billion pieces (9.3%).

The Postal Service's struggles persisted into January. Preliminary figures show a \$751 million loss for the month (the largest monthly loss in recent memory). The loss was driven by a 16% drop in mail volume compared to January 2008.

The Postal Service had been predicting a 12 - 15% drop in volume for FY 2009, but based on the January results they now expect annual volume to be off at least 15%. With the continued declines, the Postal Service is accelerating cost take out initiatives already targeted at \$5.9 billion for FY 2009 and FY 2010.

