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Kevin R. Kosar

Congressional Research Service

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The U.S. Postal Service's Financial Condition: Overview and Issues for Congress

Abstract

[Excerpt] This report provides an overview of the U.S. Postal Service's (USPS's) financial condition, recent legislation to alleviate the USPS's financial challenges, and possible issues for the 111th Congress. Since 1971, the USPS has been a self-supporting government agency that covers its operating costs with revenues generated through the sales of postage and related products and services.

Recently, the USPS has experienced significant financial challenges. After running modest profits from FY2004 through FY2006, the USPS lost \$5.3 billion in FY2007 and \$2.8 billion in FY2008. In May 2009, the USPS warned that it might experience a cash shortage at the end of September 2009. Two months later, the Government Accountability Office added the USPS's financial condition "to the list of high-risk areas needing attention by the Congress and the executive branch."

On September 30, 2009, Congress enacted H.R. 2918, the Legislative Branch Appropriations Act [of] 2010. President Barack H. Obama signed the bill into law (P.L. 111-68) the next day. Section 164 of the law alleviated the USPS's cash shortage by reducing the USPS's statutorily required September 30, 2009, payment to the Postal Service Retiree Health Benefits Fund from \$5.4 billion to \$1.4 billion. (The USPS must repay the \$4 billion deferred obligation after FY2016.)

While Congress alleviated the USPS's FY2009 cash shortage, it is unclear what the future holds for the USPS's finances. Even with this assistance, the USPS had an FY2009 operating loss of \$3.8 billion, and a \$297 million loss in the first quarter of FY2010. The USPS's auditor has stated that there is "significant uncertainty" as to whether the USPS will have the cash required to make its FY2010 payment to its Retiree Health Benefits Fund.

A number of ideas for incremental reforms have been put forth that would improve the USPS's financial condition in the short-term so that it might continue as a self-funding government agency, all of which would require Congress to amend current postal law. The ideas include (1) increasing the USPS's revenues by altering postage rates and increasing its offering of nonpostal rates and services; and (2) reducing the USPS's expenses by a number of means, such as recalculating the USPS's retiree health care and pension obligations and payments, closing postal facilities, and reducing mail delivery from six to five days.

This report will be updated to reflect significant developments.

Keywords

United States Postal Service, USPS, Congress, budget, public policy

Comments

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The U.S. Postal Service's Financial Condition: Overview and Issues for Congress

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Summary

This report provides an overview of the U.S. Postal Service's (USPS's) financial condition, recent legislation to alleviate the USPS's financial challenges, and possible issues for the 111th Congress.

Since 1971, the USPS has been a self-supporting government agency that covers its operating costs with revenues generated through the sales of postage and related products and services.

Recently, the USPS has experienced significant financial challenges. After running modest profits from FY2004 through FY2006, the USPS lost \$5.3 billion in FY2007 and \$2.8 billion in FY2008. In May 2009, the USPS warned that it might experience a cash shortage at the end of September 2009. Two months later, the Government Accountability Office added the USPS's financial condition "to the list of high-risk areas needing attention by the Congress and the executive branch."

On September 30, 2009, Congress enacted H.R. 2918, the Legislative Branch Appropriations Act [of] 2010. President Barack H. Obama signed the bill into law (P.L. 111-68) the next day. Section 164 of the law alleviated the USPS's cash shortage by reducing the USPS's statutorily required September 30, 2009, payment to the Postal Service Retiree Health Benefits Fund from \$5.4 billion to \$1.4 billion. (The USPS must repay the \$4 billion deferred obligation after FY2016.)

While Congress alleviated the USPS's FY2009 cash shortage, it is unclear what the future holds for the USPS's finances. Even with this assistance, the USPS had an FY2009 operating loss of \$3.8 billion, and a \$297 million loss in the first quarter of FY2010. The USPS's auditor has stated that there is "significant uncertainty" as to whether the USPS will have the cash required to make its FY2010 payment to its Retiree Health Benefits Fund.

A number of ideas for incremental reforms have been put forth that would improve the USPS's financial condition in the short-term so that it might continue as a self-funding government agency, all of which would require Congress to amend current postal law. The ideas include (1) increasing the USPS's revenues by altering postage rates and increasing its offering of nonpostal rates and services; and (2) reducing the USPS's expenses by a number of means, such as recalculating the USPS's retiree health care and pension obligations and payments, closing postal facilities, and reducing mail delivery from six to five days.

This report will be updated to reflect significant developments.

Contents

Background	1
The USPS's Financial Difficulties, FY2006-FY2009	1
Flattening Then Declining Revenues	1
Growing Expenses	3
Congress Acts to Alleviate the USPS's Immediate Financial Distress.....	5
The USPS's FY2010 Financial Condition.....	6
Quarter 1 Results	6
Liquidity Concerns.....	6
Issues for Congress	7
Increasing Revenues	7
Altering Postage Rates	7
Offering More Nonpostal Products and Services	8
Reducing Costs	8
Reducing the USPS's PSRHBF Obligation and Payments	8
Reducing the USPS's Pension Costs.....	9
Reducing the USPS's Contributions Toward Employee Health Premiums and Life Insurance	10
Reducing the USPS's Retail and Nonretail Facilities	11
Reducing Mail Delivery from Six to Five Days Per Week.....	12
Increasing the USPS's Powers to Control Labor Costs.....	12

Figures

Figure 1. The USPS's Mail Volume, FY2004-FY2009.....	2
Figure 2. The USPS's Operating Revenues, FY2004-FY2009.....	3
Figure 3. The USPS's Operating Revenues and Expenses, FY2004-FY2009.....	4
Figure 4. The USPS's Operating Income Without the Annual PAEA Payments to the Postal Service Health Benefits Fund, FY2004-FY2009.....	5
Figure 5. U.S. Postal Service Retail and Non-Retail Facilities, FY2007-FY2009	11

Tables

Table 1. Postal Service Retiree Health Benefits Fund Payments Under PAEA.....	4
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Contacts

Author Contact Information	13
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Background

Since 1971, the U.S. Postal Service (USPS) has been a self-supporting, wholly governmental entity. Prior to that time, the federal government provided postal services via the U.S. Post Office Department (USPOD), a government agency that received annual appropriations from Congress. Members of Congress were involved in many aspects of the USPOD's operations, including the selection of managers (e.g., postmasters) and the pricing of postal services. In 1971, Congress enacted the Postal Reorganization Act (PRA; P.L. 91-375; 84 Stat. 725), which replaced USPOD with the USPS, an "independent establishment of the executive branch" (39 U.S.C. 201). The USPS is a marketized government agency that was designed to cover its operating costs with revenues generated through the sales of postage and related products and services.¹

Although the USPS does receive an annual appropriation, the agency does not rely on appropriations. Its appropriation is about \$100 million per year, about 0.13% of the USPS's \$75 billion operating budget.² Congress provides this appropriation to compensate the USPS for the revenue it forgoes in providing, at congressional direction, free mailing privileges to blind persons and overseas voters.

The Postal Service Fund, which the USPS uses for most of its financial transactions, is off-budget, and therefore not subject to the congressional controls of the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344; 88 Stat. 297; 2 U.S.C. 621).³ However, the Postal Service Retiree Health Benefits Fund (PSRHBF), which was established by the Postal Accountability and Enhancement Act of 2006 (PAEA; P.L. 109-435, Sec. 803; 120 Stat. 3251), is on-budget. (The PSRHBF is addressed further below.)

The USPS can and does borrow money from the U.S. Treasury via the Federal Financing Bank. Federal statute limits the USPS's annual debt increases to \$3 billion, and the USPS's total debt to \$15 billion (39 U.S.C. 2005(a)).

The USPS's Financial Difficulties, FY2006-FY2009

Flattening Then Declining Revenues

After running modest profits from FY2004 through FY2006, the USPS lost \$5.3 billion in FY2007, \$2.8 billion in FY2008, and \$3.8 billion in FY2009.⁴ Were it not for congressional

¹ The term "marketized" refers to a government agency structured to provide goods and services in the manner of a private firm. On marketization as an alternative to privatization, see CRS Report RL33777, *Privatization and the Federal Government: An Introduction*, by Kevin R. Kosar, pp. 23-29.

² For further details on the USPS's appropriations, see CRS Report R40801, *Financial Services and General Government (FSGG): FY2010 Appropriations*, coordinated by Garrett Hatch, pp. 63-66.

³ For further background on the USPS's budget status, see CRS Report RS20350, *Off-Budget Status of Federal Entities: Background and Current Proposals*, by Bill Heniff Jr.; and Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2010: Appendix (Washington: GPO, 2009), pp. 1274-1276, at <http://www.whitehouse.gov/omb/budget/fy2010/assets/appendix.pdf>.

⁴ U.S. Postal Service, "Form 10-K," November 16, 2009, p. 12, at http://www.usps.com/financials/_pdf/FY_2009_10K_Report_Final.pdf.

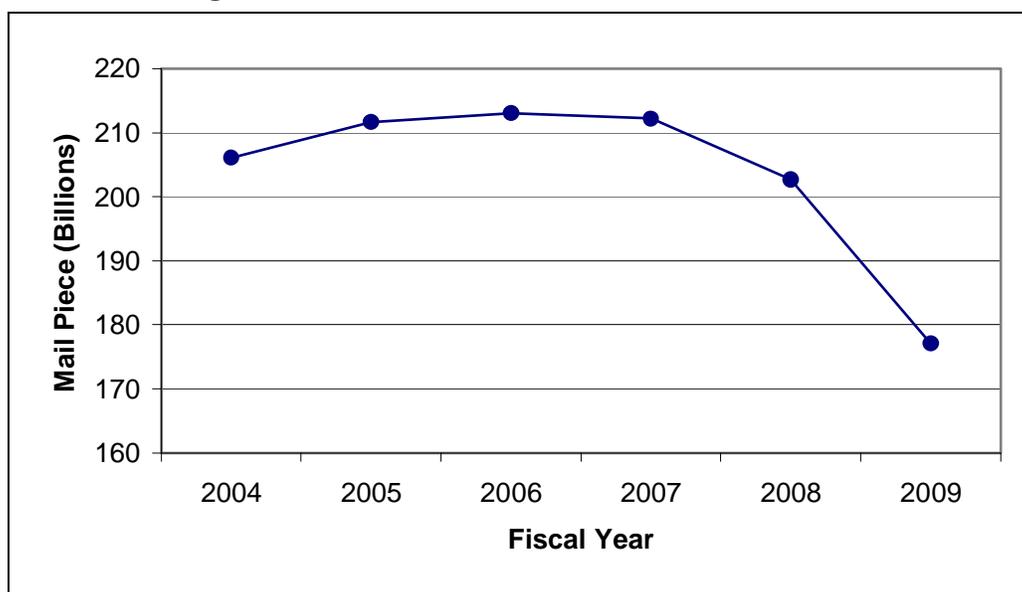
action to reduce a statutorily required payment to the PSRHBF, the USPS would have lost \$7.8 billion in FY2009. (On the PSRHBF and congressional action thereon, see below.)

As the USPS's finances have deteriorated, its ability to absorb operating losses has been diminished. Between FY2005 and FY2009, the USPS's debt rose from \$0 to \$10.2 billion. (The agency's statutory debt limit is \$15 billion (39 U.S.C. 2005(a)(2)(C)).)⁵ In July 2009, the GAO added the USPS's financial condition "to the list of high-risk areas needing attention by the Congress and the executive branch."⁶

Many media headlines have characterized the USPS's recent deficits as the result of a drop in mail volume and attendant postage purchase revenue.⁷ This is not entirely accurate. Mail volumes slid from 213.1 billion mail pieces in FY2006 to 212.2 billion in FY2007, and dropped to 202.7 billion in FY2008. Despite the drop in mail pieces, the USPS's revenues actually held steady during those years—\$72.7 billion, \$74.8 billion, and \$74.9 billion—largely due to postage increases.

However, FY2009 did bring both a drop in mail sent and postage purchased. Mail volume fell 12.4%, from 202.7 billion to 177.1 billion mail pieces, and operating revenues declined 9.1%, from \$74.9 billion to \$68.1 billion (**Figure 1** and **Figure 2**).

Figure 1. The USPS's Mail Volume, FY2004-FY2009



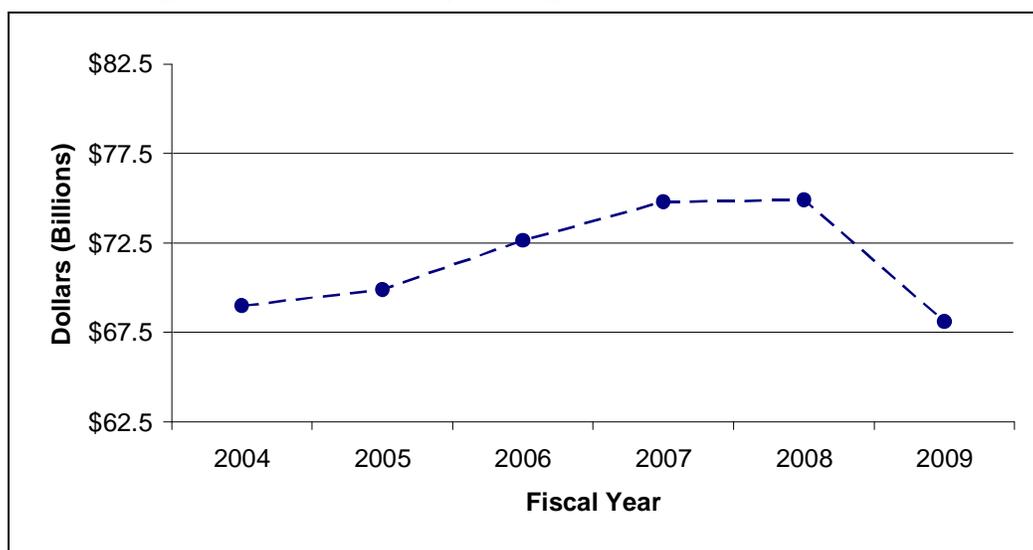
Source: U.S. Postal Service, *Annual Reports 2004-2009*.

⁵ *Ibid.*, p. 27.

⁶ Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-937SP (Washington: GAO, July 28, 2009), p. 1, at <http://www.gao.gov/press/d09937sp.pdf>.

⁷ For example, see Associated Press, "Less Snail Mail, More Red Ink at the Post Office," *New York Times*, August 5, 2009, at <http://www.nytimes.com/aponline/2009/08/05/us/politics/AP-US-Postal-Problems.html>; and Ben Rooney, "Postal Service Blames Mail Decline for Loss," *CNNMoney.com*, August 5, 2009, at http://money.cnn.com/2009/08/05/news/companies/US_postal_service/.

Figure 2. The USPS's Operating Revenues, FY2004-FY2009



Source: U.S. Postal Service, *Annual Reports 2004-2009*.

All told, then, between FY2004 and FY2009, the USPS's mail volume and operating revenues declined 16% and 1.3% respectively.

Growing Expenses

During this same period, the USPS has significantly increased operating costs. A great deal of the rise in costs is attributable in part to the Postal Accountability and Enhancement Act (PAEA).⁸ The PAEA established the PSRHBFB and requires the USPS to prefund its future retirees' health benefits at a cost of approximately \$5.6 billion per year (**Table 1**) for 10 years.⁹ (Any remaining obligation is to be amortized over the subsequent 40-year period.) In doing this, the PAEA moved the USPS from funding its retirees' health care costs out-of-pocket annually to prefunding these obligations.¹⁰ In 2004, the GAO stated that the USPS's unfunded retiree health benefits obligation was between \$47 and \$57 billion.¹¹ Using the Office of Personnel Management's (OPM's) valuation, the USPS reported that the unfunded obligation was \$51.9 billion as of the end of

⁸ On the PAEA, see CRS Report R40983, *The Postal Accountability and Enhancement Act: Overview and Issues for Congress*, by Kevin R. Kosar.

⁹ P.L. 109-435, Sec. 803; 120 Stat. 3251-3252; 5 U.S.C. Sec. 8909(d)(3)(A).

¹⁰ Put roughly, formerly the USPS calculated the number of retirees annually and then paid its portion of the health premiums due. (USPS retirees also pay a portion.) The PAEA requires the USPS to do this and also to pay annually a portion of the present value of future retiree health benefits of current employees. In accountancy terms, the PAEA moved the USPS from "cash accounting" to "accrual accounting." On these two approaches and their use for accounting for post-retirement benefits, see Financial Accounting Standards Board, "Summary of Statement No. 106," December 1990, at <http://www.fasb.org/st/summary/stsum106.shtml>. See also David M. Walker, Comptroller General, U.S. General Accounting Office, "U.S. Postal Service: Accounting for Postretirement Benefits," GAO-02-916-R, September 12, 2002.

¹¹ U.S. General Accounting Office, "Need for Comprehensive Postal Reform," GAO-04-455R, February 6, 2004, p. 2, at <http://www.gao.gov/new.items/d04455r.pdf>.

FY2009.¹² (As noted later in this report, there is considerable disagreement as to the size of the USPS's unfunded obligation.)

Table I. Postal Service Retiree Health Benefits Fund Payments Under PAEA

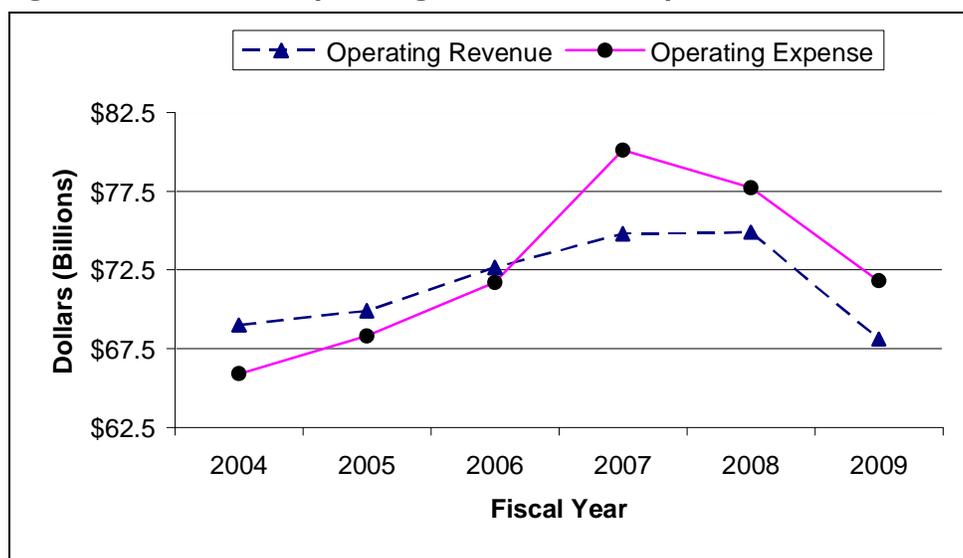
Fiscal Year	Payment (billions)
2007	\$5.4
2008	\$5.6
2009	\$5.4 ^a
2010	\$5.5
2011	\$5.5
2012	\$5.6
2013	\$5.6
2014	\$5.7
2015	\$5.7
2016	\$5.8

Source: Postal Accountability and Enhancement Act (P.L. 109-435, Sec. 803; 120 Stat. 3251-3252; 5 U.S.C Sec. 8909(d)(3)(A).)

a. FY2009 payment amount of \$5.4 billion was reduced to \$1.4 billion with enactment of P.L. 111-68.

As **Figure 3** shows, the USPS's operating expenses spiked after the enactment of the PAEA.

Figure 3. The USPS's Operating Revenues and Expenses, FY2004-FY2009

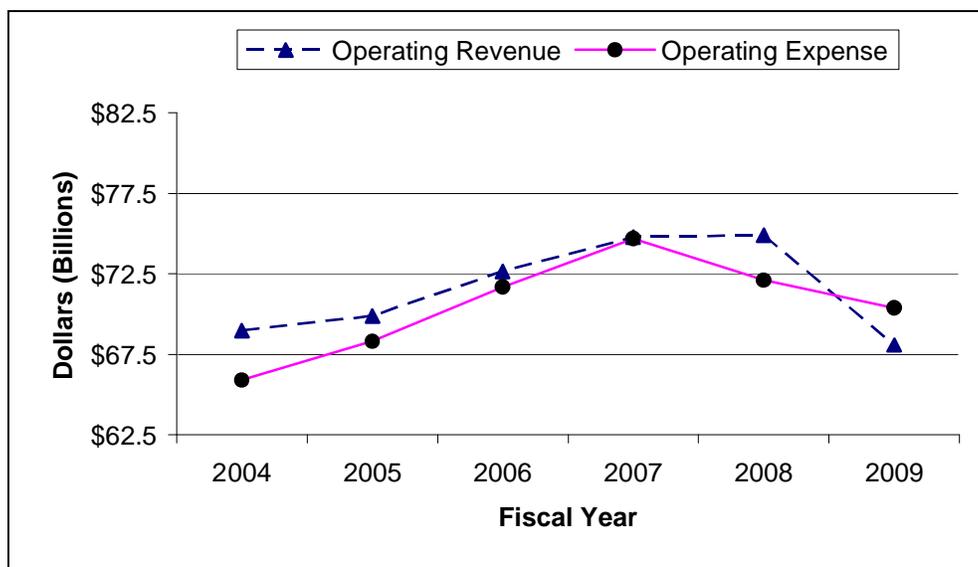


Source: U.S. Postal Service, *Annual Reports 2004-2009*.

¹² U.S. Postal Service, *Annual Report 2009* (Washington: USPS, 2009), pp. 48-49, at http://www.usps.com/financials/_pdf/annual_report_2009.pdf.

The effects of the PAEA's mandatory payments to the Postal Service Health Benefits Fund on the USPS's profitability were considerable. This may be illustrated with a hypothetical—if the USPS did not have to pay into this fund each year, it would have experienced no operating losses until FY2009. **Figure 4** reproduces **Figure 3** with the annual PAEA payments subtracted from the annual operating expenses.

Figure 4. The USPS's Operating Income Without the Annual PAEA Payments to the Postal Service Health Benefits Fund, FY2004-FY2009



Source: U.S. Postal Service, *Annual Reports 2004-2009*; and Postal Accountability and Enhancement Act (P.L. 109-435, Sec. 803; 120 Stat. 3251-3252.)

Note: The USPS made its first scheduled retiree health benefits fund payment at the end of FY2007.

Congress Acts to Alleviate the USPS's Immediate Financial Distress

In August 2009, Postmaster General John Potter estimated that after borrowing \$3 billion, the annual maximum permitted by law, the USPS might end FY2009 with a cash shortage of “up to \$700 million.”¹³ By this he meant that the USPS would not have had enough cash to pay all its financial obligations as of September 30, 2009.

This did not, though, mean that the USPS would have shut down. Had this cash shortage occurred, the Postmaster General said the USPS would have used the cash it did have to pay its employees and continue its operations as long as it could. But, the USPS would not have made

¹³ Statement of John Potter, Postmaster General, U.S. Postal Service, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, hearing, 111th Congress, 1st sess., August 6, 2009, p. 3.

the full \$5.4 billion payment to the Postal Service Retiree Health Benefits Fund that was due on September 30.¹⁴

Congress alleviated the USPS's cash shortage when it enacted H.R. 2918, the Legislative Branch Appropriations Act [of] 2010. President Barack Obama signed the bill into law the next day (P.L. 111-68). Section 164 of the law provided the USPS with an immediate reduction of \$4 billion in operating expenses by reducing the USPS's FY2009 payment to the Postal Retiree Health Benefits Fund from \$5.4 billion to \$1.4 billion. The legislation does not relieve the USPS of this \$4 billion obligation; rather, it defers USPS's payment. Come FY2017, the \$4 billion will be added to whatever remaining outstanding health care obligation may exist, and amortized over a 40-year period.

The USPS's FY2010 Financial Condition

Quarter 1 Results

Like other federal agencies, the USPS works on a fiscal year that begins on October 1. The agency reported its FY2010 first quarter results on February 9, 2010.¹⁵ Typically, the USPS books a profit in its first quarter because mail volume and revenue spikes due to the December holidays.

This year, however, the USPS recorded a loss of \$297 million in FY2010's first quarter. Mail volume was 8.9% lower than it was in FY2009's first quarter, and the USPS's revenue declined 3.9% relative to FY2009 quarter one.¹⁶ This financial loss came despite the USPS having an operating expense that was 4.4 percent lower than its operating expense in FY2009's first quarter.

Liquidity Concerns

The USPS reduced its cash position from \$4.1 billion to \$0.8 billion. This decrease is partially an effect of the USPS's debt reduction. (The USPS reduced its debt by \$2.7 billion, from \$10.2 billion to \$7.5 billion.¹⁷) The USPS may bolster its weak cash position by borrowing up to \$5.7 billion from the Federal Financing Bank (FFB).¹⁸

That said, even if the USPS were to bolster its cash position to \$6.5 billion by borrowing \$5.7 billion from the FFB, it is questionable whether it can remain liquid. If one were to assume that the USPS financially will break even for the rest of FY2010 (which the USPS itself doubts) and can retain this \$6.5 billion in cash, the USPS still may face a cash shortage at the beginning of

¹⁴ Failure to make the payment would have placed the USPS in violation of federal law, the ramifications of which are unclear. (The law is silent on this matter.) Gregg Carlstrom and Rebecca Neal, "What Happens if USPS Misses Trust Fund Payment? No One Knows," *Federal Times*, September 28, 2009, p. 5.

¹⁵ U.S. Postal Service, "Form 10-Q," February 9, 2010, at http://www.usps.com/financials/_pdf/Quarter_I_FY10_10Q_Final.pdf.

¹⁶ *Ibid.*, p. 18.

¹⁷ *Ibid.*, pp. 4, 10-11.

¹⁸ Since the USPS ended FY2009 with \$10.2 billion in debt, by law it may conclude FY2010 with debt of up to \$13.2 billion. Current debt of \$7.5 billion + \$5.7 billion in new debt = \$13.2 billion in maximum permissible debt at the end of FY2010.

FY2011. The agency must pay \$5.5 billion to the Retiree Health Benefits Fund on September 30, 2010, and pay \$1.1 billion to the Department of Labor for workers' compensation in October 2010.¹⁹

In its FY2010 first quarter 10-Q filing, the USPS stated that in the event of a liquidity crisis it would pay less than the required amount into the Retiree Health Benefits Fund.²⁰ The USPS is, however, asking Congress to amend current law prior to the end of FY2010 so as to abolish the required annual payments in to the Retiree Health Benefits Fund.²¹

Issues for Congress

While Congress alleviated the USPS's FY2009 cash shortage, it is unclear what the future holds for the USPS's finances. This May, the USPS will release its FY2010, second quarter financial results (for the period of January 1, 2010, to March 31, 2010).²²

The USPS's financial challenges raise difficult questions: Did the USPS simply suffer from a "perfect storm" of high retiree health benefits payments and declining revenue? Or is the USPS, as currently constituted, incapable of responding to a shifting, and possibly declining, market for its products and services?²³

Answering these questions goes beyond the scope of this report. Nevertheless, a number of ideas for incremental reforms have been put forth that would improve the USPS's financial condition in the short term so that it might continue as a self-funding, government agency.

Increasing Revenues

Altering Postage Rates

The PRC has found that the USPS carries some types of mail at postage rates that are below their costs.²⁴ Currently, federal law permits the USPS to increase postage annually at a rate no higher than the Consumer Price Index (39 U.S.C. 3622(d)(1)(A)). Congress may wish to further examine

¹⁹ U.S. Postal Service, "Form 10-Q," pp. 8-9.

²⁰ *Ibid.*, p. 9.

²¹ U.S. Postal Service, *Ensuring a Viable Postal Service for America: An Action Plan for the Future* (Washington: USPS, March 2, 2010), p. 1, at http://www.usps.com/strategicplanning/_pdf/Ensuring_Viable_USPS_paper.pdf.

²² The PAEA requires the USPS to report quarterly results 40 days after the end of a quarter (120 Stat. 3214; 39 U.S.C. 3654(a)).

²³ Some observers have suggested that mail volumes will continue to decline because of the substitution of Internet- and World Wide Web-based communications. For example, see President's Commission on the U.S. Postal Service, *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service* (Washington: GPO, July 31, 2003), pp. 6-8. The USPS itself has cited this "electronic diversion" as one of the causes for the decline in mail volumes. U.S. Postal Service, "Postal Service Ends Third Quarter with \$2.4 Billion Loss," press release, August 5, 2009, at http://www.usps.com/communications/newsroom/2009/pr09_066.htm.

²⁴ Postal Regulatory Commission, *Annual Compliance Determination* (Washington: PRC, March 30, 2009), pp. 5-6, at http://www.prc.gov/Docs/62/62784/ACD_Report_2008_FINAL.pdf. See also CRS Report R40162, *Postage Subsidies for Periodicals: History and Recent Developments*, by Kevin R. Kosar.

these apparent disparities and provide the USPS with additional pricing flexibilities that would enable it to recover more revenue.

Offering More Nonpostal Products and Services

Federal postal law limits the USPS to selling postage stamps, stamped paper, cards, envelopes, philatelic services, and ancillary items (39 U.S.C. 102(5); 39 U.S.C. 404(a)(4-5)). The USPS has said that it would like to increase its revenues by offering a broader range of nonpostal products and services, although it has not specified which ones.²⁵ Congress may wish to consider whether the USPS ought to enter into nonpostal business lines.

Reducing Costs

Reducing the USPS's PSRHBF Obligation and Payments

The USPS has to make seven more PAEA-mandated future retiree health benefits payments from FY2010 through FY2016. These remaining payments average more than \$5.6 billion per year and amount to \$39.4 billion. These payments will make up a significant portion (more than 7%) of the USPS's approximately \$75 billion annual operating expenses.²⁶

The U.S. Postal Service Office Inspector General (USPSOIG), Office of Personnel Management (OPM), and the PRC have disagreed on the size of the USPS's future retiree health benefits obligation. Therefore, they came to different conclusions as to the amount the USPS should pay to adequately fund this obligation.

The USPSOIG said that the USPS needs to have \$90.2 billion in the PSRHBF by the end of FY2016 for it to be adequately funded. The USPSOIG argued that the current PAEA-mandated payment schedule was too aggressive, and that the USPS should pay \$1.6 billion per year through 2016 to fund its obligations.²⁷

OPM held that the USPS should have \$147.9 billion in the fund by the end of FY2016. It argued that the USPS should put \$5.5 billion in the fund per year, but it said that it had "no objections to legislative changes that provide for a solution in a manner that does not jeopardize the funding for [postal] employee and retiree benefits."²⁸

²⁵ On the PAEA's limitation on the USPS's ability to offer nonpostal products, see CRS Report R40983, *The Postal Accountability and Enhancement Act: Overview and Issues for Congress*, by Kevin R. Kosar, pp. 10-13.

²⁶ The USPS annual operating expenses have averaged \$74.7 billion over the past five years including the full PAEA-mandated retiree health benefits payments.

²⁷ U.S. Postal Service Inspector General, *Final Management Advisory Report—Estimates of Postal Service Liability for Retiree Health Care Benefits* (Washington: USPSOIG, July 22, 2009), at http://www.uspsig.gov/foia_files/ESS-MA-09-001R.pdf; and Statement of David C. Williams, Inspector General, U.S. Postal Service Office of Inspector General, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, p. 3.

²⁸ Statement of Nancy H. Kichak, Associate Director for Strategic Resources Policy, U.S. Office of Personnel Management, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, p. 4.

The PRC reviewed both the USPSOIG's and OPM's assessments, and found merit in both approaches. The PRC suggested that the USPSOIG understated the USPS's liability because it underestimated the inflation rate for health care. The PRC argued that OPM significantly overstated the USPS's liability because it overestimated both the inflation rate for health care and the future USPS workforce size. The PRC estimated that the USPS needs to have \$113.2 billion in its Retiree Health Benefits Fund by the close of FY2016. It said that the USPS could pay \$3.4 billion per year to achieve this goal.²⁹ In light of this, Congress may wish to reassess the PAEA's payment schedule and the differing calculations of the USPS's obligation. It also may wish to consider reducing the USPS's annual payment by extending the payment schedule or by allowing the USPS to amortize more of the obligation after FY2016.

Reducing the USPS's Pension Costs³⁰

On January 20, 2010, the U.S. Postal Service Office of Inspector General published a report on the USPS's funding of pension costs for postal workers who were employed by both the U.S. Post Office Department (prior to 1971) and its successor, the U.S. Postal Service. The report criticizes the allocation of the pension costs between the USPS and the federal government for employees who had service both as employees of the Post Office Department and later as employees of the Postal Service.

The OIG report notes that the Postal Service is currently responsible for meeting all pension costs under the Civil Service Retirement System (CSRS) for employees hired after 1971. For employees with service both before and after 1971, the federal government and the Postal Service share responsibility for CSRS pensions. The federal government pays for service through 1971, and the USPS pays for service after 1971.

The OIG report contends that the allocation of CSRS costs between the USPS and the federal government is unfair because the Postal Service is fully responsible for increases in pension costs that result from pay raises granted after 1971. Because CSRS pensions are based on both an employees' years of service and the average of an employee's highest three consecutive years of pay, pension costs rise as employee pay rises. As a consequence, the percentage of CSRS pension costs allocated to the USPS for an employee who worked for both the Post Office Department and the USPS is greater than the proportion of the worker's career that he or she spent as an employee of the USPS. The OIG report notes, for example, that for a person who worked for the Post Office Department for 20 years prior to 1971 and for the USPS for 10 years thereafter, the USPS is obliged to fund about half of this person's pension costs. (The other half is paid for by the U.S. government.)

The OIG report suggests that the USPS's share of CSRS pension costs should be proportional to employees' length of service as USPS employees relative to their total length of service with the Post Office Department and the USPS. If an employee had spent 15 years as an employee of the Post Office Department and 15 years as an employee of the USPS, for example, the federal government and the USPS each would be responsible for half of the cost of that individual's

²⁹ Postal Regulatory Commission, *Postal Regulatory Commission Review of Retiree Health Benefit Fund Liability as Calculated by Office of Personnel Management and U.S. Postal Service Office of Inspector General* (Washington: PRC, July 30, 2009), at http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf.

³⁰ This section was written by Patrick Purcell, Specialist in Income Security, Domestic Social Policy Division, Congressional Research Service (ppurcell@crs.loc.gov, 7-7571).

CSRS pension. The OIG's report estimates that under the current method of allocating the costs of CSRS pensions, the Postal Service has paid \$75 billion more into the Civil Service Retirement and Disability Trust Fund than it would have paid if costs were allocated between the federal government and the USPS strictly in proportion to length of service.

In 2004, the Postal Service requested that the OPM, which administers the Civil Service Retirement System, reconsider the method by which it allocates CSRS pension expenses between the Postal Service and the U.S. Treasury. The OPM denied the request on the ground that the allocation method it had developed was consistent with federal law. The OPM cited P.L. 93-349 (July 12, 1974), which required the USPS to finance all increases in retirement liabilities that are attributable to salary increases granted by the USPS. The House committee report accompanying the bill that was enacted as P.L. 93-349 (H.R. 29, 93rd Congress) states that the "purpose of this legislation is to clearly establish the responsibility of the U.S. Postal Service to finance increases in the liability of the Civil Service Retirement and Disability Fund, caused by administrative action of the Postal Service, as apart from increases in unfunded liabilities which are incurred by act of Congress." The committee report further states that with respect to any increase in CSRS pension expense that results from future pay raises received by USPS employees, "the cost of this liability should properly and equitably be borne by the Postal Service."

A reduction in the proportion of CSRS pension expenses allocated to the Postal Service would increase the unfunded liability of the Civil Service Retirement and Disability Fund. Absent a reduction in the cost of financing CSRS pensions, changing the allocation of CSRS pension expenses between the Postal Service and general fund of the U.S. Treasury is a zero-sum game. A reduction in the amount of CSRS pension expenses allocated to the USPS would result in an equal increase in CSRS pension expenses borne by the U.S. Treasury.

On March 2, 2010, the Postal Regulatory Commission said that it will conduct its own review of the USPS's pension liability.³¹

Reducing the USPS's Contributions Toward Employee Health Premiums and Life Insurance

In his initial FY2010 budget, President Barack Obama proposed requiring USPS employees to pay the same percentage towards their health premiums and life insurance as other federal workers.³² (Currently, USPS employees pay 17% of their health care premium costs and 0% of their life insurance premiums, while other federal employees pay 27% and 67% respectively.)³³ The administration estimated this new policy would save the USPS \$752 million in FY2010 and \$9.5 billion in the period of FY2010 to FY2019.³⁴

³¹ Postal Regulatory Commission, "PRC Initiates Review of USPS Pension Liability," press release, March 2, 2010, at http://prc.gov/prc-docs/home/whatsnew/PRC%20Review%20of%20USPS%20CSRS%20liability_604.pdf.

³² Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2010: Summary Tables*, March 2009, Table S-6, p. 126, at <http://www.whitehouse.gov/omb/assets/documents/S-6.pdf>.

³³ Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-958 (Washington: GAO, August 6, 2009), p. 2, at <http://www.gao.gov/new.items/d09958t.pdf>.

³⁴ Reportedly, the proposal was dropped because of concerns that it would violate collective bargaining. Darrell A. Hughes, "Obama Admin Halts Plans To Alter US Postal Workers' Benefits," *Wall Street Journal* (online), May 11, 2009, at <http://online.wsj.com/article/BT-CO-20090511-719565.html>.

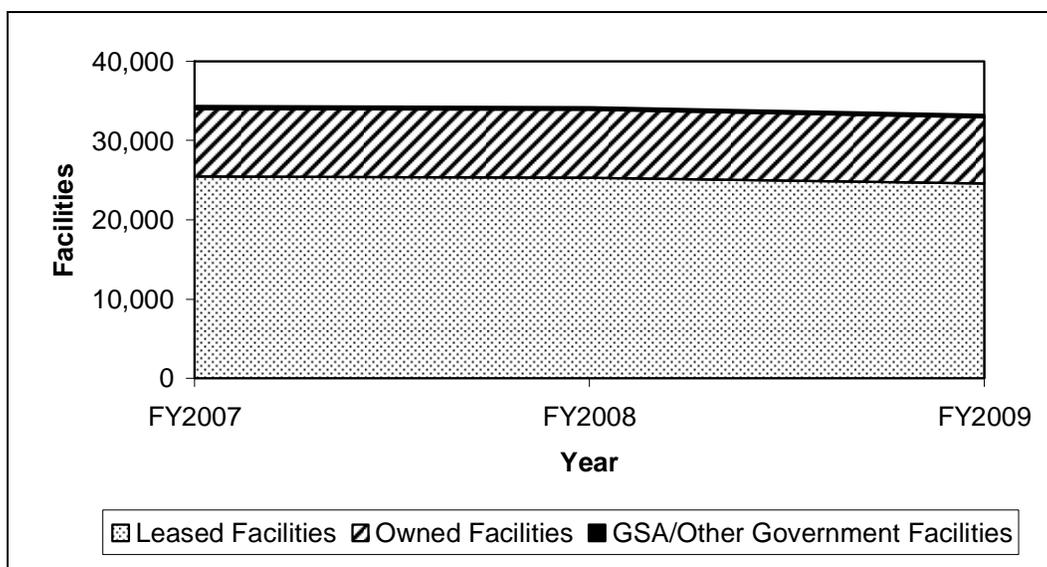
Reducing the USPS's Retail and Nonretail Facilities

GAO has testified repeatedly that the USPS has not reduced its number of retail postal facilities and mail processing plants sufficiently:

Excess capacity has grown with unprecedented declines of mail volume, which are projected to continue through fiscal year 2010.... [A]s its mail volumes decline, [the] USPS does not have sufficient revenues to cover the growing costs of providing service to new residences and businesses while also maintaining its large network of retail and processing facilities.³⁵

The PAEA was enacted in the first quarter of FY2007. The USPS has reduced its facility footprint³⁶ 3.1%, from 34,318 to 33,264 (**Figure 5**).

Figure 5. U.S. Postal Service Retail and Non-Retail Facilities, FY2007-FY2009



Source: U.S. Postal Service, "2008 Report on Form 10-K Statement," p. 10, and "2008 Report on 10-K Statement," p. 9.

Notes: The GSA/Other Government Facilities category refers to facilities owned by government agencies other than the USPS.

In FY2009, the USPS announced that it might close more than 3,100 of its retail facilities, but by early FY2010, that number had been reduced to 241.³⁷

Congress may wish to consider providing the USPS with additional authority to reduce its facilities. Or, Congress may wish to consider legislation similar to that introduced by Senator Thomas Carper in 2003. S. 1285 (108th Congress) proposed establishing a Postal Network

³⁵ Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, pp. 3-4.

³⁶ Here, facility footprint refers to the number of USPS leased and owned facilities. The facility footprint does not include contract postal units and community post offices, which are owned and operated by private individuals.

³⁷ CRS Report R40719, *Post Office and Retail Postal Facility Closures: Overview and Issues for Congress*, by Kevin R. Kosar, p. 3.

Optimization Commission to reduce the number of postal facilities in a manner similar to that used to close military bases in the 1990s.

As a related matter, both houses of Congress also may wish to consider enacting rules to prevent congressional intervention in proposed mail facility closures.³⁸ Alternatively, Congress might enact a law to authorize appropriations to reimburse the USPS for cost-savings lost because of congressionally imposed delays in facilities closures.

Reducing Mail Delivery from Six to Five Days Per Week

GAO has suggested that Congress should consider permitting the USPS to reduce its delivery schedule from six to five days, a policy with which the USPS concurs.³⁹ To date, the estimates of possible savings from a reduction in delivery days range from \$1.9 billion to \$3.5 billion.⁴⁰ (No studies have argued the contrary—that moving to five-day delivery would increase costs.)

The USPS is conducting a study to determine the cost savings of a switch to five-day delivery, which it will release in early 2010. Congress may wish to examine it and the previously published studies on five-day mail delivery.

Increasing the USPS's Powers to Control Labor Costs

Critics have long argued that the USPS is required to be self-supporting but that federal law provides it with very few authorities to control its employment costs—which make up approximately 80% of its total operating costs.⁴¹ For example, in 2003 the President's Commission on the United States Postal Service noted that “postal workers enjoy special status within the federal workforce. They are granted the right to negotiate wages, hours, and workplace conditions through collective bargaining.”⁴² By law, the USPS is required to “maintain compensation and benefits for all officers and employees on a standard of comparability to the compensation and benefits paid for comparable levels of work in the private sector” (39 U.S.C. 1003(a)). The commission further argued that the current statutory process for resolving disputes

³⁸ For example, see S.Rept. 111-43, Financial Services and General Government Appropriations Bill, FY2010, p. 131. “The Committee is aware that the Quincy, Illinois AMP [Area Mail Processing plant] is among the facilities for which a possible realignment feasibility study has been announced. The Committee is concerned about the impact on the community and postal customers of eliminating jobs or transferring functions. The Committee directs the Postal Service to provide the Committee with a detailed explanation of the criteria used to select the Quincy AMP for a study no later than 30 days after enactment. The Committee further directs the Postal Service to not proceed with the Quincy AMP study or any other related actions to implement that study during fiscal year 2010.”

³⁹ Statement of Phillip Herr, Director, Physical Infrastructure, Government Accountability Office, *U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, p. 11; and Statement of John Potter, Postmaster General, U.S. Postal Service, in U.S. Congress, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, *The U.S. Postal Service in Crisis*, p. 7.

⁴⁰ CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy R. Ginsberg.

⁴¹ Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, p. 2.

⁴² For example, see President's Commission on the United States Postal Service, *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service: Report of the President's Commission on the United States Postal Service* (Washington: GPO, July 31, 2003), p. 108, at <http://www.ustreas.gov/offices/domestic-finance/usps/pdf/freport.pdf>.

between management and labor frequently results in arbitrators being empowered to make binding decisions that favor employees (e.g., postal workers pay lower premiums for their health insurance, and are protected from layoffs.)⁴³

Congress may wish to consider measures that would provide the USPS with increased means to control its long-term labor costs. The 2003 presidential commission on the USPS advocated this goal.⁴⁴ S. 1507, which was introduced during the first session of the 111th Congress, would amend 39 U.S.C. 1207(c) to require arbitrators in rendering collective bargaining decisions to “consider the financial condition of the Postal Service.”

Additionally, the USPS has relied upon attrition to reduce its workforce from 803,000 to 712,082 between FY2003 and FY2009.⁴⁵ According to GAO, 300,000 USPS employees will be eligible for retirement between 2009 and 2013.⁴⁶ The USPS offered early retirement incentives to “up to 30,000” of its employees in FY2009.⁴⁷ As of the end of FY2009, the USPS reported that 20,100 USPS employees had accepted it.⁴⁸ Congress may wish to assess the USPS’s efforts to offer employees early retirement, and consider whether the USPS has sufficient authorities to further reduce its workforce.

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⁴³ For example, see *Collective Bargaining Agreement Between American Postal Workers Union, AFL-CIO and U.S. Postal Service*, November 21, 2006-November 20, 2010 (Washington: APWU, 2006), pp. 9-18, at <http://www.apwu.org/dept/ind-rel/sc/APWU%20Contract%202006-2010.pdf>.

⁴⁴ President’s Commission on the United States Postal Service, *Embracing the Future*, pp. 138-140.

⁴⁵ U.S. Postal Service, *Annual Report 2009* (Washington: USPS, 2009), p. 81.

⁴⁶ Government Accountability Office, *U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability*, GAO-09-958T (Washington: GAO, August 6, 2009), p. 5.

⁴⁷ U.S. Postal Service, “Postal Service Continues Cost-Cutting Actions,” press release, August 25, 2009, at http://www.usps.com/communications/newsroom/2009/pr09_073.htm.

⁴⁸ U.S. Postal Service, *Annual Report 2009*, p. 54.