



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. It also addresses current legislation that aims to improve the USPS's financial condition—H.R. 22, S. 1507, and H.R. 5746.

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 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 \$1.9 billion loss in the first half 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.

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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.

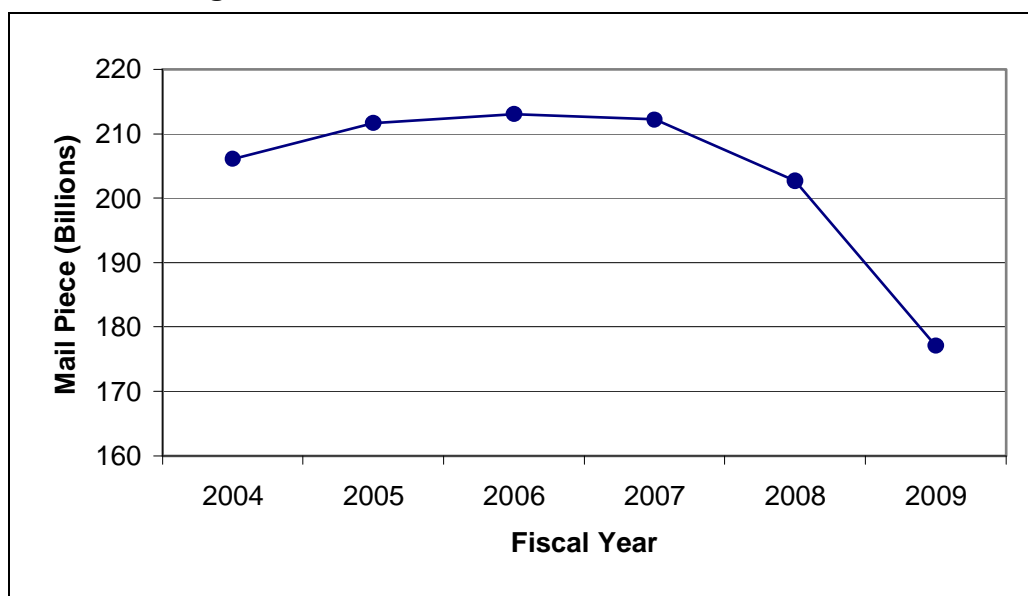
action to reduce a statutorily required payment to the PSRHBF, the USPS would have lost \$7.8 billion in FY2009. (On the PSRHBF and congressional action thereon, see below.)

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

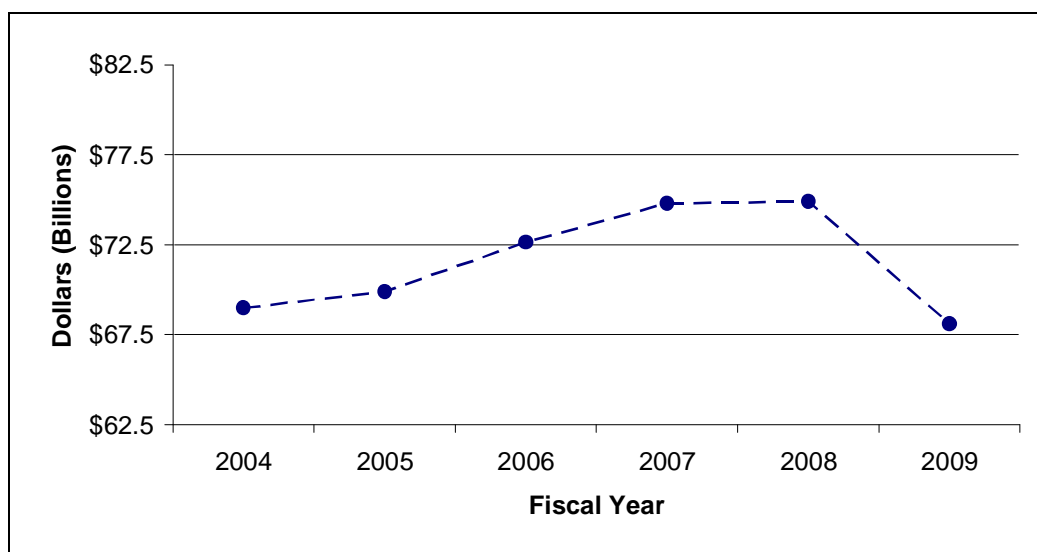


Source: U.S. Postal Service, *Annual Reports 2004-2009*.

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 expenses. 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 PSRHB 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 methodology, the USPS reported that the unfunded obligation was \$51.9 billion as 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>.

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

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

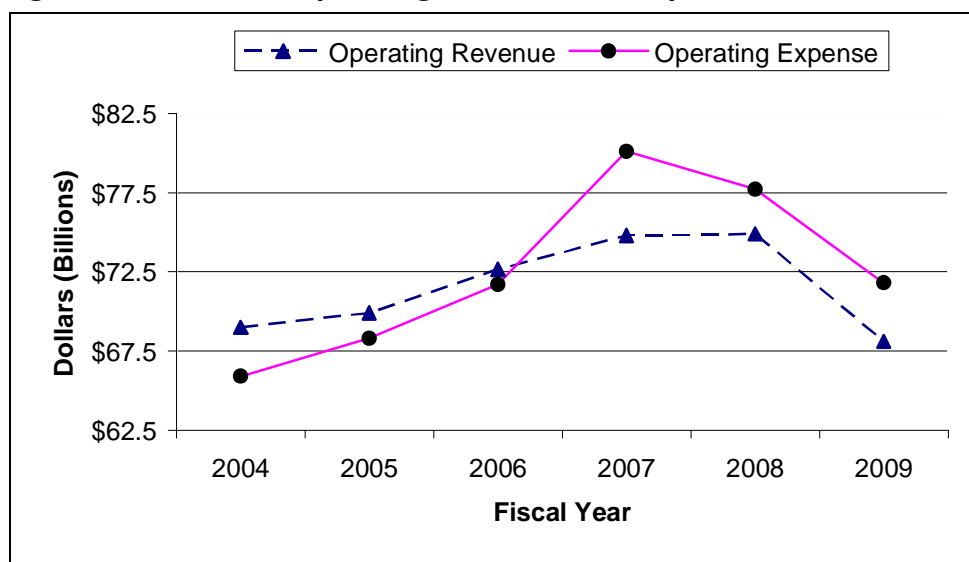
Fiscal Year	Payment (billions)
2007	\$5.4
2008	\$5.6
2009	\$5.4 ^a
2010	\$5.5
2011	\$5.5
2012	\$5.6
2013	\$5.6
2014	\$5.7
2015	\$5.7
2016	\$5.8

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

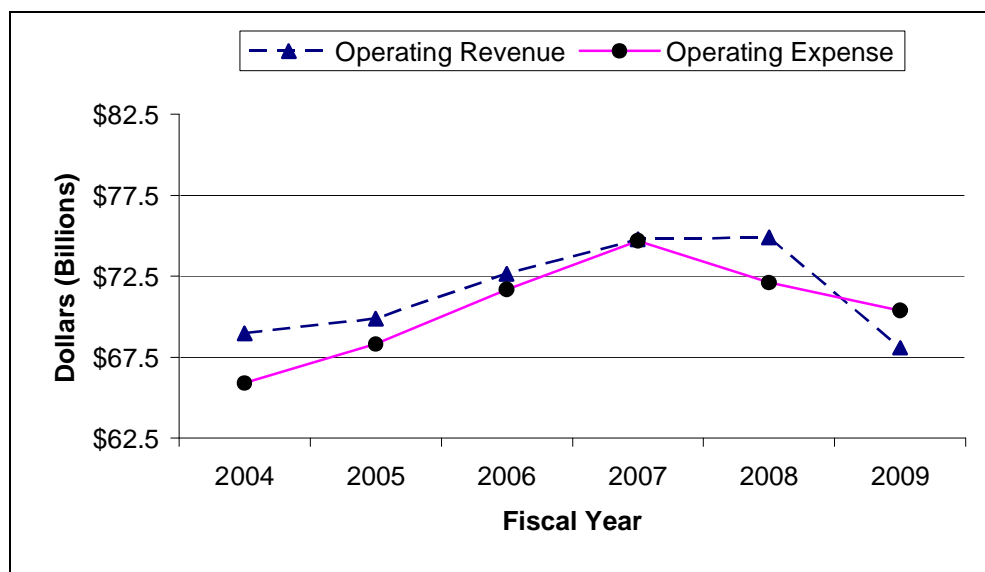


Source: U.S. Postal Service, *Annual Reports 2004-2009*.

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% lower than its operating expense in FY2009's first quarter.

Quarter 2 Results

The USPS reported its FY2010 second quarter results on May 10, 2010. It experienced an FY2010 second quarter loss of a little more than \$1.5 billion, and a year-to-date loss of \$1.9 billion.¹⁷ These results are better than its results from the same periods in FY2009, when the USPS had losses of \$1.9 billion and \$2.3 billion, respectively.

To date, FY2010 revenue is slightly below FY2009 revenue (\$35.1 billion vs. \$36.0 billion), and the USPS's FY2010 operating expense is nearly \$1.6 billion less than its operating expense in FY2009 (\$36.7 vs. \$38.3).

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 U.S. Postal Service, "Form 10-Q," May 10, 2010, at http://www.usps.com/financials/_pdf/Quarter_II_FY10_10Q_Final.pdf, p. 3.

Liquidity Concerns

During FY2010's first quarter, the USPS reduced its cash position from \$4.1 billion to \$0.8 billion. At the end of the second quarter, the USPS had \$1.0 billion in cash. This FY2010 decrease in cash is partially an effect of the USPS's debt reduction, as the USPS reduced its debt by \$3.7 billion, from \$10.2 billion to \$6.5 billion.¹⁸

The USPS may bolster its weak cash position by borrowing up to \$6.7 billion from the Federal Financing Bank (FFB).¹⁹

That said, even if the USPS were to bolster its current \$1.0 billion cash position to \$7.7 billion by borrowing \$6.7 billion from the FFB, it is unclear how long 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)²⁰ and can retain this \$7.7 billion in cash, the USPS still may face a cash shortage in early 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 2010.²¹ This would leave the agency with a little over \$1 billion—not much for an agency with average weekly operating expenses of \$1.3 billion.

Issues for Congress

While Congress alleviated the USPS's FY2009 cash shortage, it is unclear what the future holds for the USPS's finances. In August, the USPS will release its FY2010, third quarter financial results (for the period of April 1, 2010, to June 30, 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

¹⁸ U.S. Postal Service, “Form 10-Q,” May 10, 2010, p. 10.

¹⁹ 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 \$6.5 billion + \$6.7 billion in new debt = \$13.2 billion in maximum permissible debt at the end of FY2010.

²⁰ U.S. Postal Service, “Form 10-Q,” May 10, 2010, pp. 8.

²¹ *Ibid.*, pp. 8-9.

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, *Ensuring a Viable Postal Service for America* (Washington: USPS, March 2010), p. 2, at http://www.usps.com/strategicplanning/_pdf/Ensuring_Viable_USPS_paper.pdf.

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 so that it might continue as a self-funding, government agency.

Increasing Revenues

Altering Postage Rates

In its annual study of the USPS's compliance with federal laws, the Postal Regulatory Commission (PRC) has reported that the USPS carries some types of mail at postage rates that are below their costs.²⁴ At a May 2010 House of Representatives' hearing,²⁵ John Waller of the PRC testified that 14 products fell \$1.7 billion short of covering their attributable costs.²⁶

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 these apparent disparities and provide the USPS with additional pricing flexibilities that would enable it to recover more revenue.²⁷

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.²⁸ Congress may wish to consider whether the USPS ought to enter into nonpostal business lines, and whether it could be expected to reap immediate financial gains from doing so.

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

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.

²⁵ U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and District of Columbia, "The Price is Right, Or Is It? An Examination of USPS Workshare Discounts and Products that Do Not Cover Their Costs," hearing, 111th Congress, 2nd sess., May 12, 2010, at http://oversight.house.gov/index.php?option=com_content&view=article&id=4917:the-price-is-right-or-is-it-an-examination-of-usps-workshare-discounts-and-products-that-do-not-cover-their-costs&catid=54:hearings&Itemid=27.

²⁶ Ibid. Testimony of John Waller, Director of Office of Accountability and Compliance, Postal Regulatory Commission, p. 7, at http://oversight.house.gov/images/stories/Postal_/Prepared_testimony_of_John_Waller.pdf.

²⁷ The USPS has asked for increased pricing flexibility. See U.S. Postal Service, *Ensuring a Viable Postal Service for America: An Action Plan for the Future*, pp. 13-14.

²⁸ 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.

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.²⁹

The U.S. Postal Service Office Inspector General (USPSOIG) 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 PSRHB 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.³⁰

OPM questioned the assumptions used by the USPSOIG, 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."³¹

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.³² 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 Costs³³

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

²⁹ The USPS annual operating expenses have averaged \$74.7 billion over the past five years including the full PAEA-mandated retiree health benefits payments.

³⁰ 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.

³¹ 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.

³² 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.

³³ Much of this section was written by Patrick Purcell, Specialist in Income Security, Domestic Social Policy Division, Congressional Research Service (ppurcell@crs.loc.gov, 7-7571).

who had service both as employees of the Post Office Department and later as employees of the Postal Service. OPM has contested the USPSOIG's claims.³⁴

The USPSOIG 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 USPSOIG 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 employee's 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 USPSOIG 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 USPSOIG 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 CSRS pension. The USPSOIG'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 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. OPM denied the request on the ground that the allocation method it had developed was consistent with federal law. 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."

³⁴ See the agencies' testimony at U.S. Congress, House Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and District of Columbia, "Continuing to Deliver: An Examination of the Postal Service's Current Financial Crisis and its Future Viability," hearing, 111th Congress, 2nd sess., April 15, 2010, at http://oversight.house.gov/index.php?option=com_content&task=view&id=4884&Itemid=27.

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.

In March 2010, the PRC said that it would examine the USPS's pension liability.³⁵ The agency hired a private auditor, the Segal Group Inc., to produce a report, which the PRC released publicly on June 30, 2010.³⁶ The report largely agrees with the conclusion of USPSOIG's January 2010 report; and the PRC has stated that "an adjustment of \$50-\$55 billion in favor of the Postal Service would be equitable."³⁷

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.³⁸ (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.)³⁹ The Administration estimated this new policy would save the USPS \$752 million in FY2010 and \$9.5 billion in the period of FY2010 to FY2019.⁴⁰

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.⁴¹

³⁵ 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.

³⁶ The Segal Group, Inc., *Report to the Postal Regulatory Commission: Civil Service Retirement System Cost and Benefit Allocation System*, June 29, 2010, at http://www.prc.gov/prc-docs/home/whatsnew/Report%20on%20CSRS%20Cost%20and%20Benefit%20Allocation%20Principles_1122.pdf.

³⁷ Postal Regulatory Commission, PRC Report Finds \$50 Billion Discrepancy, press release, June 30, 2010, at [http://www.prc.gov/prc-docs/home/whatsnew/PRC%20issues%20study%20of%20USPS%20CSRS%20liability%20draft%20\(2\)_1119.pdf](http://www.prc.gov/prc-docs/home/whatsnew/PRC%20issues%20study%20of%20USPS%20CSRS%20liability%20draft%20(2)_1119.pdf).

³⁸ 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>.

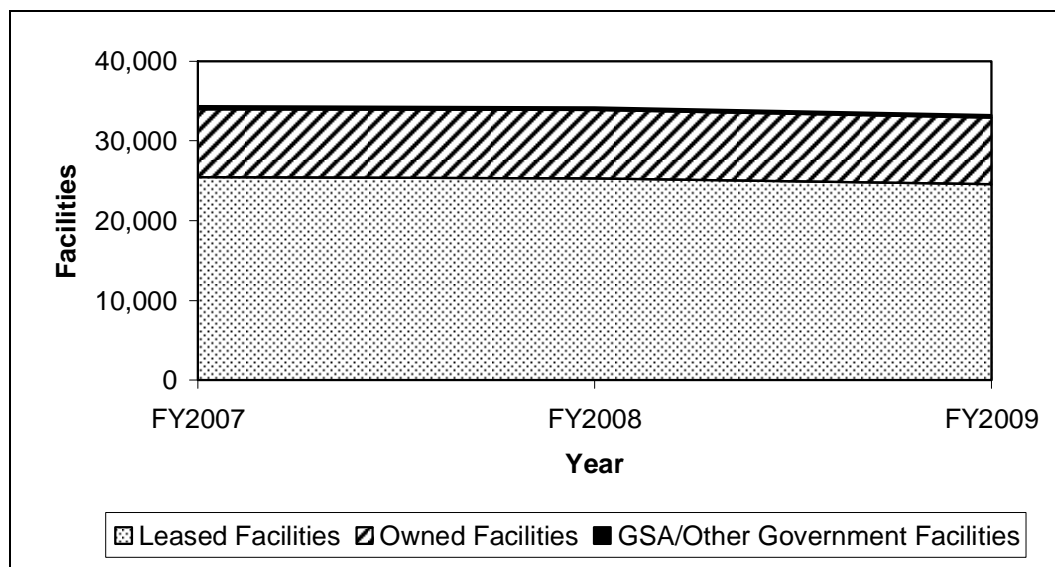
³⁹ Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-958 (Washington: GAO, August 6, 2009), p. 2, at <http://www.gao.gov/new.items/d09958t.pdf>.

⁴⁰ 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>.

⁴¹ Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, (continued...)

The PAEA was enacted in the first quarter of FY2007. The USPS has reduced its facility footprint⁴² 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 241.⁴³

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 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.⁴⁴ Alternatively, Congress might

(...continued)

pp. 3-4.

⁴² 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.

⁴³ CRS Report R40719, *Post Office and Retail Postal Facility Closures: Overview and Issues for Congress*, by Kevin R. Kosar, p. 3.

⁴⁴ 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 (continued...) ”

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 consider permitting the USPS to reduce its delivery schedule from six to five days, a policy with which the USPS concurs.⁴⁵

Nothing in Title 39 of the *U.S. Code* (which holds most federal postal law) requires the USPS to deliver mail six days per week. However, since 1984 Congress has included a provision in its annual appropriation to the USPS stating that “6-day delivery and rural delivery of mail shall continue at not less than the 1983 level” (e.g., P.L. 111-117; 123 Stat. 3200). The PRC has observed that the precise meaning of this mandate “could be subject to a number of interpretations, including requiring 6-day delivery in all areas which had it in 1983, or requiring the same percentage of recipients of 6-day delivery as in 1983.”⁴⁶ To date, the USPS has treated the language to mean that it lacks the authority to move to five-day mail until Congress ceases including the six-day mail provision in annual appropriations.

Since 2008, three studies (two by the USPS and one by the PRC) have examined the possible financial effects of a switch from six-day to five-day delivery.⁴⁷ The studies all estimate that the USPS would save money by reducing the days of delivery from six to five, as the cost savings (largely due to reduced labor expenses) will exceed any decline in revenues due to lower demand for mail prompted by a reduced delivery schedule. The studies suggest an annual improvement to the USPS’s financial condition that would be between \$1.9 billion to \$3.5 billion.⁴⁸ (No studies have argued the contrary—that moving to five-day delivery would increase costs.) The USPS’s five-day delivery plan does not say how long it would take to implement five-day delivery and begin reaping any savings.⁴⁹ The USPS did note that it would provide at least six months notice prior to switching to five-day delivery.⁵⁰

On March 30, 2010, the USPS asked the PRC for an advisory opinion on reducing delivery to five days. By law, the USPS must ask the PRC for an opinion when the USPS “determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis ... within a reasonable time prior to the effective date

(...continued)

AMP study or any other related actions to implement that study during fiscal year 2010.”

⁴⁵ 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; U.S. Postal Service, *Ensuring a Viable Postal Service for America*, p. 11, and U.S. Postal Service, “Five-Day Delivery” web page, at <http://www.usps.com/communications/five-daydelivery/>.

⁴⁶ Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly* (Washington: PRC, 2008), p. 196, at <http://www.prc.gov/prc-docs/home/whatsnew/USO%20Report.pdf>.

⁴⁷ U.S. Postal Service, *Report on the Universal Postal Service and the Postal Monopoly* (Washington: USPS, October 2008), at http://www.usps.com/postallaw/_pdf/USPSUSOReport.pdf; Postal Regulatory Commission, *Report on the Universal Postal Service and the Postal Monopoly*; and U.S. Postal Service, *Delivering the Future: Five-Day Delivery is Part of the Solution*.

⁴⁸ CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by Wendy R. Ginsberg.

⁴⁹ U.S. Postal Service, *Delivering the Future: Five-Day Delivery Is Part of the Solution* (Washington: USPS, March 2010), pp. 22-23, at http://www.usps.com/communications/five-daydelivery/plan/5day_plan_delivery.pdf.

⁵⁰ *Ibid.*, p. 2 of executive summary.

of such proposal” (39 U.S.C. 3661). Under PRC rules, a “reasonable time” is defined at “not less than 90 days” (39 CFR 3001.72). PRC Chairman Ruth Goldway suggested in a March 2010 hearing that the PRC may require six to nine months to issue its opinion.⁵¹

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.⁵² 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.”⁵³ 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 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.)⁵⁴

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.⁵⁵ 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 FY2009.⁵⁶ According to GAO, 300,000 USPS employees will be eligible for retirement between 2009 and 2013.⁵⁷ The USPS offered early retirement incentives to “up to 30,000” of its employees in FY2009.⁵⁸ As of the end of FY2009, the USPS reported that 20,100

⁵¹ Statement of Ruth Goldway, Chairman of the Postal Regulatory Commission, in U.S. Congress, Senate Committee on Appropriations, Subcommittee on Financial Services and General Government, hearing, *Hearing on the Postal Service*, 111th Congress, 2nd sess., March 18, 2010. Commissioner Goldway's statement came at minutes 91.55 to 92.15 of the hearing, a video of which may be viewed at <http://appropriations.senate.gov/webcasts.cfm?method=webcasts.view&id=0ab901bd-d6f5-40c0-8f6e-49bb6fca1f69>.

⁵² Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, p. 2.

⁵³ 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>.

⁵⁴ 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>.

⁵⁵ President's Commission on the United States Postal Service, *Embracing the Future*, pp. 138-140.

⁵⁶ U.S. Postal Service, *Annual Report 2009* (Washington: USPS, 2009), p. 81.

⁵⁷ Government Accountability Office, *U.S. Postal Service: Restructuring Urgently Needed to Achieve Financial Viability*, GAO-09-958T (Washington: GAO, August 6, 2009), p. 5.

⁵⁸ 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.

USPS employees had accepted it.⁵⁹ 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.

Current Legislation

In the 111th Congress, three bills have been introduced that would address the USPS's financial condition—H.R. 22, S. 1507, and H.R. 5746. All three address the RHBF payments, and H.R. 5746 does so by addressing the USPS's aforementioned CSRS pension obligation.

H.R. 22

Representative John McHugh introduced H.R. 22 on January 6, 2009. The bill was referred to the Committee on Oversight and Government Reform and the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia. As introduced, H.R. 22 would have permitted the USPS to pay its share of its current retirees' health premiums out of the USPS's Retiree Health Benefits Fund for eight years, from FY2009 to FY2016.

On January 28, 2009, GAO testified that enacting H.R. 22, as introduced, would increase the USPS's unfunded health benefits obligation from \$43 billion to \$75 billion in 2017.⁶⁰

In the long term, the large impact this unfunded obligation would have on the Fund would create the risk that USPS would have difficulty making future payments, particularly considering mail volume trends and the impact of payments on postal rates if mail volume declines continue. USPS's proposal would also shift responsibility for paying the benefits of postal employees from current rate payers to future rate payers.⁶¹

GAO recommended reducing H.R. 22's eight years of relief to two years.

When the subcommittee marked up the bill on June 24, 2009, it reduced the relief from eight years to three years, and reported it. The full committee reported the bill without amendment on July 10 (H.Rept. 111-216). As of August 11, 2009, H.R. 22 had 339 co-sponsors, all but two of which had signed on to it prior to the subcommittee's action.

On July 20, 2009, the Congressional Budget Office (CBO) released its cost estimate of H.R. 22 as amended. Although the bill would not appropriate any funds to the USPS, CBO said H.R. 22 would add \$2.5 billion in costs to the unified budget for the period of FY2010 to FY2019.⁶² CBO explained that this cost would come as the result of H.R. 22 encouraging less aggressive cost-cutting by the USPS. "We expect that lowering the health care expenses of the Postal Service

⁵⁹ U.S. Postal Service, *Annual Report 2009*, p. 54.

⁶⁰ Under PAEA, the USPS makes large annual payments for 10 years, and then would amortize the remaining obligation over 40 years. See Statement of Phillip Herr, Director, Physical Infrastructure, Government Accountability Office, U.S. Postal Service: *Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs*, p. 7.

⁶¹ Ibid.

⁶² Congressional Budget Office, "Cost Estimate: H.R. 22, United States Postal Service Financial Relief Act of 2009," p. 1, at <http://www.cbo.gov/ftpdocs/104xx/doc10465/hr22.pdf>.

Fund by \$2 billion or more annually would cause the [USPS] to modify its efforts to reduce other spending near the end of fiscal year 2009 and in future years.”⁶³

On September 15, 2009, the House voted 388 to 32 to pass a substitute amendment to H.R. 22. This bill would amend the PAEA to reduce the USPS's FY2009 payment to the Retiree Health Benefits Fund from \$5.4 billion to \$1.4 billion. The \$4 billion difference would be added to the amount that is to be amortized in 2017. According to a “Dear Colleague” letter circulated the day before H.R. 22 was brought up under suspension of rules, “The Congressional Budget Office has confirmed that [the substitute amendment to H.R. 22] will not violate the pay-go rule.”⁶⁴

On September 24, the House and Senate integrated the substitute amendment of H.R. 22 into Section 164 of H.Rept. 111-265, the conference report on H.R. 2918, the Legislative Branch Appropriations Act [of] 2010. The House approved the report the next day, and the Senate passed it on September 30, 2009. President Barack Obama signed the bill into law (P.L. 111-68) the next day.

H.R. 22 remains available for legislative action.

S. 1507

Senator Thomas Carper introduced S. 1507 on July 23, 2009. The bill aimed to reduce the USPS's out of pocket costs for health care by allowing the USPS to pay its current retiree health benefits from the Retiree Health Benefits Fund and by amending the PAEA-enacted payment schedule to extend its length by three years and reduce some of the annual payments.⁶⁵ S. 1507 also would have increased the USPS's annual borrowing authority from \$3 billion to \$5 billion in FY2009 and FY2010. Any amounts borrowed under this short-term authority would not have counted toward the USPS's statutory debt ceiling of \$15 billion, and would have had to be repaid by the conclusion of FY2019.

On July 30, 2009, the Senate Committee on Homeland Security and Governmental Affairs amended and reported the bill. The amendments proposed to

- alter PAEA (P.L. 109-435, Sec. 710(a); 120 Stat. 3247) to require GAO to prepare and submit to the President and Congress a report that evaluates the options and strategies for the long-term structural and operational reforms of the USPS necessary to achieve financial stability and long-term fiscal viability (the report would be due March 31, 2010);
- affirm the current statutory USPS debt cap (39 U.S.C. 2005(a)) by striking the provision exempting the short-term borrowing authority from the cap;

⁶³ Ibid., p. 2.

⁶⁴ Dear colleague letter from Edolphus Towns, Chairman, Committee on Oversight and Government Reform, and Stephen F. Lynch, Chairman, Subcommittee on the Federal Workforce, Postal Service, and the District of Columbia, “Facts Regarding H.R. 22,” September 14, 2009, p. 1. In response to an inquiry by CRS, CBO affirmed that it had estimated that H.R. 22, as amended, would not have effects on the unified budget. E-mail from Mark Grabowicz, Congressional Budget Office, to author, September 16, 2009.

⁶⁵ S. 1507 also would require the USPS to make additional annual payments to the fund from FY2009 to FY2019 to cover the “net present value” of providing health care benefits to future retirees.

- change current law (39 U.S.C. 3686) to prohibit the USPS from paying its executives bonuses for years that the USPS runs losses; and
- alter current law (39 U.S.C. 1207(c)) to require arbitrators in rendering collective bargaining decisions to “consider the financial condition of the Postal Service.”

At least two postal employee unions condemned the amendment to alter collective bargaining.⁶⁶

According to a CBO cost estimate published on September 14, 2009, S. 1507 would have had a net cost to the unified budget of \$2.8 billion over the 2010 to 2019 period.⁶⁷ CBO attributed these unified budget costs to the USPS making reduced payments to the retiree health benefits fund (which creates on-budget effects), and a resultant reduction in financial pressures to cut its operating expenses (which creates off-budget effects).⁶⁸

Like H.R. 22, S. 1507 remains available for legislative action.

H.R. 5746

Representative John Lynch, Chairman of the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, introduced H.R. 5746 on July 15, 2010. The bill was referred to the House Oversight and Government Reform Committee, and Chairman Lynch’s subcommittee. The subcommittee reported the bill by an eight-to-one vote on July 21.

H.R. 5746 would attempt to address the USPS’s RHBF payment issue via addressing the aforementioned USPS pension fund dispute. In short, the bill would require OPM to recalculate the USPS’s CSRS obligation for employees who worked for both the Post Office Department and the USPS using the methodology employed by the Segal Group Inc. and approved by the PRC.⁶⁹ OPM would have to complete this recalculation within six months of enactment of the bill. Should OPM find the USPS has paid more than its share of these CSRS pensions (as the Segal Group Inc. report did), OPM would have 90 day to devise a means to transfer this money to the RHBF.

At the time of publication of this report, CBO had not published its cost estimate of H.R. 5746.

⁶⁶ For example, see Statement of William Burrus, President, American Postal Workers Union, AFL-CIO, 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, at http://hsgac.senate.gov/public/index.cfm?FuseAction=Files.View&FileStore_id=9bf217c7-f416-4ace-a8b2-949272e41613.

⁶⁷ Congressional Budget Office, “S. 1507 Postal Service Retiree Health Benefits Funding Reform Act of 2009,” September 14, 2009, p. 1.

⁶⁸ *Ibid.*, p. 6.

⁶⁹ See page 11 of this report.

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