Executive Compensation at the U. S. Postal Service: Issues for the 112th Congress

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Summary

Media reports and some Members of Congress have expressed concerns that the pay of U.S. Postal Service (USPS) executives is too high and should be reduced. USPS and others have argued that current compensation rates are needed to attract talented employees to a Postal Service that delivers mail and packages to homes and businesses throughout the United States without taxpayer assistance.

The 112th Congress has taken action on two bills that would limit USPS executive compensation or benefits. S. 1789 would remove certain "fringe benefits" and cap pay at Level I of the Executive Schedule ($199,700 in 2012). H.R. 2309 would prohibit Postal Service executives from receiving bonuses in years when USPS expenses eclipsed revenues and cap pay at Executive Schedule Level I in certain years.

This report examines the authorities governing executive compensation at USPS. It examines pay rates for other public-sector employees as well as certain private-sector employees to analyze how the pay of the Postmaster General and other Postal Service executives might compare.

At the end of FY2011, USPS employed 645,950 people. Within that total is a cadre of Postal Career Executive Service (PCES) employees. As of May 18, 2012, USPS had 640 PCES employees. The cadre is divided into two categories: executives and officers. Executives, of which there were 604, perform duties such as district manager or bulk-mail center manager. Officers, of which there were 36, serve at the pleasure of the Postmaster General (PMG) and include senior-level positions like area vice presidents and the Deputy Postmaster General.

PCES employees and the Postmaster General are paid pursuant to specific statutory authorities. Pay for PCES employees is capped at $276,840 in FY2012. A Postal Executive may earn more than that statutory cap if he or she qualifies for a performance-based pay bonus. Pay earned in excess of the pay cap may be deferred and collected upon retirement. Three USPS officers currently receive deferred pay.

PCES officers and the PMG receive certain benefits that are not provided to other federal employees, like free life insurance, financial counseling, and parking. Additionally, PCES employees have no cap on the number of annual leave days they can accrue. Federal employees in the Senior Executive Service (outside of the Postal Service) cannot accrue more than 90 days of annual leave. Further, the PMG is provided a driver and security services pursuant to certain statutory provisions.

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Introduction

The U.S. Postal Service (USPS) maintains a cadre of employees known as the Postal Career Executive Service (PCES). PCES employees are intended to fill "key management positions"[1] within USPS, which employed 645,950 people as of the end of FY2011.[2] As of May 18, 2012, USPS employed 640 employees in the PCES in addition to the PMG. Of those employees, 36, known as "officials," serve at the pleasure of the Postmaster General (PMG) and include senior-level positions like area vice presidents and the Deputy Postmaster General.[3] The remaining 604, known as "executives," perform duties such as district manager or bulk-mail center manager.[4] The PMG is not a member of the PCES.

Pay for PCES employees and the PMG is capped at $276,840 in FY2012. A PCES employee or the PMG may earn more than that statutory cap if he or she qualifies for a performance-based pay bonus. Any merit-based pay earned in excess of the pay cap can be retained as "deferred pay" and collected upon retirement.[5] Former Postmaster General John E. Potter, for example, had an $815,788 aggregate balance in deferred pay as of September 30, 2011.[6] The deferred pay currently is and will continue to be paid out in annual installments—as opposed to a lump sum.

In addition to pay, PCES employees receive benefits that are not provided to other federal employees, including free life insurance provided at a value equal to salary; periodic physical examinations; financial counseling; parking; and membership in up to two airline clubs.[7] Additionally, PCES employees have no cap on the number of annual leave days they can accrue.

[1] U.S. Postal Service, "Employee and Labor Relations Manual: Postal Career Executive Service, Section 381 Purpose," at http://about.usps.com/manuals/elm/html/elmc3_034.htm.

[2] Information provided to the author by USPS via e-mail on June 25, 2012.

[3] U.S. General Accounting Office, *U.S. Postal Service: Diversity in the Postal Career Executive Service*, GAO/GGD-00-76, March 2000, p. 4, at http://www.gao.gov/assets/230/228890.pdf. Data on the number of PCES employees and their categorization were provided to the author by USPS via e-mail on June 25, 2012.

[4] U.S. General Accounting Office, *U.S. Postal Service: Diversity in the Postal Career Executive Service*, GAO/GGD-00-76, March 2000, p. 4, at http://www.gao.gov/assets/230/228890.pdf.

[5] Pursuant to several General Accounting Office (now the Government Accountability Office (GAO)) comptroller general decisions, deferred pay bonuses that are not based on employee performance are to be "considered wages in the year they are earned." See U.S. General Accounting Office, Comptroller General, *U.S. Railway Association—Matter of Mr. Lewis*, B-175155, July 1, 1976; U.S. General Accounting Office, Comptroller General, *Tennessee Valley Authority—Matter of Patricia Schroeder*, B-222334, June 2, 1986; U.S. General Accounting Office, Comptroller General, *Matter of: Retirement Benefits of President of Radio Free Europe*, B-253469, September 9, 1993. The most recent USPS Office of Inspector General (USPS OIG) audit of USPS pay found one case in which a USPS employee received a retention bonus that was not tied to his or her performance. The bonus was issued as deferred pay, which, according to the USPS OIG, resulted in the USPS providing pay above the statutory pay cap. USPS disagreed with the OIG's assessment, saying that the "compensation cap was not exceeded." See U.S. Postal Service, *Officer Compensation for Calendar Year 2010 Audit Report*, FT-AR-11-011, Washington, DC, September 23, 2011, pp. 2, 12, at http://www.uspsoig.gov/foia_files/FT-AR-11-011.pdf.

[6] U.S. Postal Service, *United States Postal Service Form 2011 Report on Form 10-K*, Washington, DC, November 2011, p. 56, at http://about.usps.com/who-we-are/financials/10k-reports/fy2011.pdf.

[7] U.S. Postal Service, *United States Postal Service Form 2011 Report on Form 10-K*, Washington, DC, November 2011, p. 52, at http://about.usps.com/who-we-are/financials/10k-reports/fy2011.pdf. Until January 2012, USPS paid all health benefits costs for officers and executives of the service. In January, USPS's share of health benefits premiums dropped from 100% to 91%. Over the next two years, the percentage of the premium covered by USPS will continue to drop until that percentage is equal to what the federal government provides to its other employees (an average of 72%).

Federal employees in the Senior Executive Service (outside of the Postal Service) cannot accrue more than 90 days of annual leave.

Since 1971, USPS has been a self-supporting, wholly governmental entity.[8] Although the USPS does receive an annual appropriation, the agency does not rely on appropriations to operate. Its annual appropriation is about $100 million per year, approximately 0.1% of USPS's $75 billion operating budget.[9]

After running modest profits from FY2004 through FY2006, USPS lost $25.4 billion between FY2007 and FY2011.[10] Were it not for congressional action to reduce certain statutorily required health benefits payments, USPS would have lost an additional $9.5 billion.[11]

As USPS's finances have deteriorated, its ability to absorb operating losses has been diminished. Between FY2005 and FY2011, USPS's debt rose from $0 to $13 billion.[12] (The statutory debt limit is $15 billion (39 U.S.C. §2005(a)(2)(C)).) In July 2009, the Government Accountability Office (GAO) added the USPS's financial condition "to the list of high-risk areas needing attention by the Congress and the executive branch."[13]

Media reports and some Members of Congress have expressed concerns that the pay of USPS executives is too high and should be reduced—especially considering USPS's current financial condition.[14] USPS and others, however, have argued that compensation rates are needed at their current levels to attract talented employees to maintain a Postal Service that delivers mail and packages to homes and businesses throughout the United States with limited appropriations.[15] The total estimated cost to pay for PCES employees' compensation and benefits in FY2012 is $126.2 million, or less than 0.5% of the Postal Service's annual budget. Postal Officers within the PCES

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[8] Prior to 1971, 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).

[9] 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. For further details on the USPS's appropriations, see CRS Report R41340, *Financial Services and General Government (FSGG): FY2011 Appropriations*, coordinated by (name redacted), pp. 64-66. Nearly all of USPS's budget is generated through sales of its products (including stamps and packaging) and services (including delivery).

[10] U.S. Postal Service, "2011 Report on Form 10-K" (Washington: USPS, 2011), p. 21; and U.S. Postal Service, *2009 Annual Report* (Washington: USPS, 2009), p. 2.

[11] For more detailed information on the financial condition of USPS, see CRS Report R41024, *The U.S. Postal Service's Financial Condition: Overview and Issues for Congress*, by (name redacted).

[12] USPS may bolster its current weak cash position by borrowing from the Federal Financing Bank. By law, the USPS may increase its debt each year by a maximum of $3 billion, and its total debt may not exceed $15 billion.

[13] 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.

[14] See, for example, Jennifer Liberto, "Postal chief's $384,000 pay sparks call for cut," *CNN Money*, March 2, 2012, at http://money.cnn.com/2012/03/02/news/economy/postal_chief_pay/index.htm; and Senator Jon Tester, "Senate unanimously passes Tester's cut to Postmaster General's salary," press release, April 25, 2012, at http://www.tester.senate.gov/Newsroom/pr_042512_postal_reform_passage.cfm.

[15] See, for example, Liberto, "Postal chief's $384,000 pay sparks call for cut," *CNN Money*.

are estimated to cost the Service $11.0 million in FY2012, or less than 0.02% of the annual USPS budget.[16]

The 112th Congress has introduced two bills that would limit USPS executive pay in some way. S. 1789, for example, would remove certain "fringe benefits" and cap pay at Level I of the Executive Schedule ($199,700 in 2012). H.R. 2309 would prohibit PCES employees from receiving bonuses in years when USPS expenses eclipsed revenues and would cap pay at Executive Schedule Level I in certain years. On April 25, 2012, S. 1789 was passed by the Senate. On January 17, 2012, H.R. 2309 was reported by the House Committee on Oversight and Government Reform. On March 29, H.R. 2309 was reported by the House Committee on Rules and placed on the Union Calendar. No further action has been taken on either bill.

This report examines the authorities governing executive compensation at USPS. It examines pay rates for other public-sector employees as well as certain private-sector employees to analyze how the pay of the Postmaster General and other Postal Service executives might compare. This report does not address the pay and benefits of bargaining USPS employees.[17] It also does not examine the trends in workforce size and delineation within USPS.[18]

Executive Compensation

Federal authorities that govern USPS employee pay rates do not use the term PCES. Instead, the laws use the terms "officers," "employees," "executives," and "critical senior executives or equivalent positions."

Pursuant to 39 U.S.C. §1003(a), USPS has the authority 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*** of the economy" (emphasis in original). Concurrently, 39 U.S.C. §1003(a) caps USPS pay at the rate for level I of the Executive Schedule, a pay level that dictates pay for high-ranking federal employees, including most Cabinet secretaries. Level I of the Executive Schedule is $199,700 in 2012.

Postal executives, however, are eligible for annual one-time bonuses that can push their total compensation levels above the Executive Schedule cap.[19] Pursuant to 39 U.S.C. §3686(a)-(b), executives may receive bonuses provided the employee's total compensation for the year does not "exceed the total annual compensation payable to the Vice President … as of the end of the calendar year in which bonus or award is paid." The Vice President's pay is $230,700 in 2012. The USPS Board of Governors, however, must verify that the performance appraisal system used

[16] Information provided by e-mail to the author from USPS on July 19, 2012. Percentages do not include payments USPS is required to make to the Retiree Health Benefits Fund as part of the USPS's total budget.

[17] For more information on USPS and collective bargaining, see CRS Report R42491, *Postal Service: Collective Bargaining*, by (name redacted).

[18] For more information on USPS workforce trends, see CRS Report RS22864, *U.S. Postal Service Workforce Size and Employment Categories, FY1986-FY2011*, by (name redacted) and (name redacted).

[19] Title 5 of the U.S. Code prohibits individuals serving in positions appointed by the President by and with the advice and consent of the Senate from receiving cash awards at any time. This prohibition on bonuses would apply to cabinet secretaries who receive Executive Level I pay. See, for example, 5 U.S.C. §5754. Such Executive Schedule appointees also may not receive recruitment, relocation, and retention incentives by law (5 U.S.C. §§10104-10105).

to determine if the award is warranted "makes meaningful distinctions based on relative performance."[20]

Moreover, 39 U.S.C. §3686(c) gives the USPS Board of Governors authority to select up to 12 USPS officers "in critical senior executive or equivalent positions to receive total compensation … not to exceed 120 percent of the total annual compensation payable to the Vice President." As noted above, the pay rate of the Vice President is $230,700 in 2012, and the Vice President does not qualify for performance-based pay bonuses. The cap on critical senior executive positions in USPS selected to receive this level of compensation, therefore, is $276,840 in 2012. Within 30 days of selecting those who should receive this salary level, the USPS Board of Governors is required to provide written notification to Congress and the Director of the Office of Personnel Management of whom they selected. According to USPS, as of May 1, 2012, there are eight employees currently serving in critical executive positions who are eligible for this level of compensation.

According to USPS, its Board of Governors has annually contracted a private consulting firm to assist in setting compensation levels for postal executives.[21] This firm attempts to compare USPS executive pay levels to "market pay and compensation design practices for executive officers in other companies."[22] According to USPS, finding private-sector executives with identical duties that could be used to compare pay rates "was challenging because no other organization shares the same mission, scope of operations, and legislative oversight as the Postal Service."[23] Despite these concerns, the private consulting firm found that in 2010, "USPS executive base salaries are significantly below market when compared against published survey data or comparable jobs in the private sector."[24]

In addition to salary, USPS executives and officials can earn bonuses for meeting annual performance goals. According to USPS, the "goals and metrics … vary among executive officers and are weighted to reflect appropriately the degree to which an executive is able to influence the overall performance of the Postal Service."[25] Generally, the Board of Governors determines the bonus metrics for the PMG and the Deputy PMG.[26] The PMG then determines the metrics for performance bonuses for the other USPS executives and officials.[27] Because of the Postal Service's current financial condition, no performance incentives were awarded for FY2011.[28]

[20] 39 U.S.C. §3686(b).

[21] U.S. Postal Service, "2011 Report on Form 10-K," p. 49.

[22] Ibid. In addition to the private consulting firm's assistance, the USPS Office of Inspector General performs an annual audit of USPS executive pay. See, for example, U.S. Postal Service, *Officer Compensation for Calendar Year 2010 Audit Report*, FT-AR-11-011, Washington, DC, September 23, 2011, pp. 2, 12, http://www.uspsoig.gov/foia_files/FT-AR-11-011.pdf.

[23] Ibid.

[24] Ibid. This report compares USPS executive and official pay to certain public and private-sector positions later in this report.

[25] U.S. Postal Service, "2011 Report on Form 10-K," p. 50. Upon taking the PMG position on December 4, 2010, Patrick R. Donohoe asked the USPS Board of Governors "not to award him any additional compensation, beyond salary and the general types of benefits provided to postal executives." Mr. Donohoe, therefore, does not receive pay above his salary, which is at the statutory cap of $276,840.

[26] Ronald A. Stroman was appointed as Deputy Postmaster General on April 2, 2011, but no details on his salary or compensation were provided in USPS's 2011 Report on Form 10-K.

[27] Ibid.

[28] Ibid. USPS's financial troubles will be discussed in some detail later in this report, and are analyzed in detail in CRS (continued...)

Table 1 shows the FY2010 pay levels for selected federal executive officers within USPS. All of the employees in this table are among those selected by the USPS Board of Governors to receive compensation capped at 120% of the Vice President's total annual compensation.

Table 1. FY2011 Pay and Compensation Levels for Certain Executive Officers Within the U.S. Postal Service

Name and Position	Salary[a]	Bonus[b]	Non-equity Incentive Plan Compensation[c]	Change in Pension Value and Nonqualified Deferred Compensation Earnings[d]	All Other Compensation[e]	Total
Patrick R. Donahoe *Postmaster General*	$271,871	N/A	N/A	$81,954	$30,404	$384,229
John E. Potter *Postmaster General*	$53,239	N/A	$286,840	($24,427)	$16,858	$332,510
Joseph Corbett *Chief Financial Officer and Executive Vice President*	$239,000	N/A	$30,000	$23,376	$18,107	$310,483
Megan Brennan *Chief Operating Officer and Executive Vice President*	$225,308	$25,000	N/A	$67,512	$41,176	$358,996
Ellis Burgoyne *Chief Information Officer and Executive Vice President*	$220,846	$25,763	N/A	$228,384	$33,695	$508,688
Anthony J. Vegliante, *Chief Human Resources Office and Executive Vice President*	$240,000	N/A	$60,000	$56,931	$12,736	$369,667

Source: U.S. Postal Service, "*2011 Report on Form 10-K*," p. 54, unless otherwise noted.

Notes: Mr. Donahoe was appointed Postmaster General and Chief Executive Officer as of December 4, 2010. Mr. Donahoe's FY2011 (prior to December 4, 2010) data reflect compensation as the Deputy Postmaster General and the Chief Operating Officer. Mr. Potter was Postmaster General and Chief Executive Officer through December 3, 2010, for the FY2011 period. He continues to collect deferred pay, which will be discussed in greater detail in the notes below.

Ronald A. Stroman was appointed as Deputy Postmaster General on April 2, 2011, but no details on his salary or total compensation were provided in USPS's 2011 Report on Form 10-K.

a. Salaries for executive level officers were frozen for calendar year 2011. The salary amounts are based on the calendar year and not the fiscal year. Therefore, FY2011 salary amounts include a portion of calendar year 2010 salary amounts.

(...continued)

Report R41024, *The U.S. Postal Service's Financial Condition: Overview and Issues for Congress*, by (name redacted).

b. Pursuant to a contract with the Postal Service, the amount shown for Mr. Corbett in this column was awarded as a recruitment incentive in FY2009. Ms. Brennan and Mr. Burgoyne were each paid $25,000 in FY2011 as a recruitment lump-sum when they were promoted to their respective positions as Chief Operating Officer and Chief Information Officer. In addition, Mr. Burgoyne was awarded $763 in his previous position as Vice President, Area Operations.

c. The amounts in this column reflect the performance-based incentive compensation awarded to executive officers in prior fiscal years; as noted above, this incentive compensation was not awarded for FY2011. Former Postmaster General Potter's non-equity incentive plan compensation was deferred due to the compensation cap and is being paid in ten annual installments as he has retired from Postal Service employment. The amount for FY2010 for Mr. Potter includes a lifetime achievement award and a severance payment per his contract. Pursuant to Mr. Corbett's employment contract, his non-equity incentive plan compensation includes $30,000 in deferred performance-based compensation for FY2010 and FY2011. Pursuant to a retention contract with the Postal Service, Mr. Vegliante was awarded a performance-based retention of $60,000 for FY2011; this amount was deferred. Any amounts that could not be paid to an executive officer due to the compensation cap or their contract were deferred for future payment.

d. PMG, Mr. Donahoe, former PMG, Mr. Burgoyne, and Mr. Vegliante participate in the Civil Service Retirement System (CSRS), which is a defined benefit plan. Mr. Corbett and Ms. Brennan participate in the Federal Employees Retirement System (FERS), a portion of which is a defined benefit plan. For more information on CSRS and FERS, see CRS Report 98-810, *Federal Employees' Retirement System: Benefits and Financing*, by (name redacted). The amounts shown in this column for each of these individuals are the amounts by which the value of their annuities have increased since the end of the prior fiscal year. "Nonqualified deferred compensation earnings" is defined as above-market earnings on deferred income. There were no reportable amounts of non-qualified deferred compensation earnings for the named executive officers in FY2011, with the exception of Mr. Corbett, whose above-market earnings on deferred income was $238.

e. For all executive officers listed, the "All Other Compensation" category includes financial planning services, Thrift Savings Plan employer matching contribution for FERS employees, non-cash awards, parking, physical examinations, life insurance premiums, airline clubs, and relocation costs. Security costs valued at $19,471 are also included for the PMG.

USPS Executive Pay and the 112th Congress

In the 112th Congress, two bills that seek to reduce the pay and benefits provided to USPS executives have been introduced: S. 1789 and H.R. 2309.

S. 1789, the 21st Century Postal Service Act of 2012, includes a section that seeks to reduce USPS executive pay. Pursuant to Section 108 of S. 1789, USPS executive pay would be capped at level II of the Executive Schedule, which is $179,700 in 2012. S. 1789 would authorize the Board of Governors to select up to six USPS employees in "very senior executive positions" to receive pay equivalent to Executive Level I ($199,700 in 2012). The bill limits "fringe benefits" of senior executives to that of other supervisors or managers who are not PCES, and prohibits USPS from providing an award or bonus to senior executives during years when USPS "has not implemented the measures needed to achieve long-term solvency."[29]

[29] The measures that would be considered as steps toward achieving "long-term solvency" are defined in Section 208(e) of the 21st Century Postal Service Act of 2012 (S. 1789). S. 1789, as passed by the Senate, does not contain a Section 208(e), but Section 207(e) defines long-term solvency as

> the ability of the Postal Service to pay debts and meet expenses, including the ability to perform maintenance and repairs, make investments, and maintain financial reserves, as necessary to fulfill the requirements and comply with the policies of title 39, United States Code, and other obligations of the Postal Service over the long term.

H.R. 2309 would cap pay for what it calls "Level Two Postal Service Executives" (Level Twos)[30] at Level I of the Executive Schedule ($199,700) in years when USPS is in control of a Commission on Postal Reorganization that would be established by the bill. H.R. 2309 states that this cap on compensation includes "basic pay, bonuses, awards, and all other monetary compensation." H.R. 2309 links pay increases for the Level Twos to the Consumer Price Index.[31] Additionally, no Level Two would be permitted to receive a "bonus, award, or other monetary compensation" when USPS expenditures exceed revenues. Pursuant to H.R. 2309, Level Twos could not accrue deferred compensation in years when USPS expenditures exceed revenues.

Comparisons to the Public and Private Sector

USPS noted in its financial statements that it may be difficult to compare the pay of USPS executives to that of private sector employees because of USPS's unique mission, size, and scope. The PMG headed a service with 645,950 full and part-time employees as of September 30, 2011 and revenues of $65.7 billion in FY2011.[32] Although there are no government agencies or private sector companies that perform duties identical to that of USPS, it may be helpful to examine the pay rates of public and private-sector managers at entities that perform some identical services, provide some identical products, require a similar managerial skills, or are of a similar size. Examining the pay rates of these individuals may provide Congress with a broader context of USPS managerial pay.

The Private Sector

As noted above, federal law provides USPS the authority to set officer and employee pay rates "on a standard of comparability to the compensation and benefits paid for ***comparable*** levels of work in the ***private sector*** of the economy" (emphasis in original). To determine whether officer and employee pay rates are comparable, therefore, it is necessary to determine which private-sector positions would be considered comparable to certain positions within USPS. CRS selected three private-sector corporations that might be considered comparable to USPS for a variety of reasons: FedEx, the United Parcel Service (UPS), and Amtrak.

FedEx provides a variety of transportation, e-commerce, and delivery services around the world and competes with USPS on some products and services. In FY2011, FedEx paid its Chairman, President, and CEO Frederick W. Smith $1.23 million in salary.[33] When Mr. Smith's awards, non-

[30] H.R. 2309 defines Level Two Senior Executives as "the Postmaster General, the Deputy Postmaster General, and all other officers or employees of the Postal Service in level two of the Postal Career Executive Service (or the equivalent)." Section 202 (b)(3)(B).

[31] Level Two pay increases could not be more than "the percentage change in the Consumer Price Index for All Urban Consumers, unadjusted for seasonal variation, for the most recent 12- month period available." This cap would not apply to a Level Two who had "a significant change in job responsibilities." Increases in Executive Schedule pay levels, however, are not required to be tied to changes in the Consumer Price Index. Pursuant to H.R. 2309 as reported by the House Committee on Oversight and Government Reform, the percentage change of the pay increase of a Postal Service executive could not exceed the percentage change in the CPI. Therefore, it is possible that the Executive Schedule Level I pay rate could increase at a faster rate than Postal Service executives' pay.

[32] Employee counts are taken from U.S. Postal Service, *2011 Annual Report* (Washington: USPS, 2011), p. 15; and, *Annual Report*. Revenues are from U.S. Postal Service, "2011 Report on Form 10-K" (Washington: USPS, 2011), p. 21.

[33] FedEx, "2011 Proxy Statement to Shareholders," August 15, 2011, p. 45.

equity incentives, and other compensation are added to that salary, his total compensation was $7.26 million in FY2011.[34] FedEx does not list all the benefits and perquisites provided to Mr. Smith and other executives, but it does list life insurance premiums, 401(k) matching contributions, and other tax reimbursements among the benefits Mr. Smith received.[35] In FY2011, FedEx reported it had 255,573 average full-time employees worldwide and had revenues of $39.3 billion.[36]

UPS is a global delivery company that provides specialized transportation and logistics services. Like FedEx, UPS competes with USPS on some products and services. FY2011 compensation data for UPS was unavailable. In FY2010, however, D. Scott Davis, Chairman and CEO of UPS, reported receipt of a $1 million salary and $10.73 million in total compensation.[37] Benefits provided to Mr. Davis appear to be similar to those offered to the PMG, and include life insurance, financial planning, and health benefits. Nearly $7.8 million of Mr. Davis's total compensation for FY2010 was earned in stock options.[38] UPS's website says it has 398,300 employees worldwide and earned $53.1 billion in revenue in 2011.[39]

Amtrak, also known as the National Rail Passenger Corporation, is a private organization that has received a federal subsidy every year since its inception in 1971. Like USPS, Amtrak has struggled financially.[40] Amtrak's president's salary is currently $350,000. 49 USC §24303(b) of the *U.S. Code* covers the pay of Amtrak officers. It reads:

> The board [of directors] may fix the pay of the officers of Amtrak. An officer may not be paid more than the general level of pay for officers of rail carriers with comparable responsibility. The preceding sentence shall not apply for any fiscal year for which no Federal assistance is provided to Amtrak.

In the original legislation creating Amtrak,[41] the provision was "[t]he rates of compensation of all officers shall be fixed by the board."[42]

In FY2011, Amtrak reported $2.7 billion in revenues and 20,156 employees.[43]

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[34] Ibid. Mr. Smith's total FY2011 compensation was $158,612 less than he was paid in FY2010, and $479,908 less than he was paid in FY2009.

[35] Ibid.

[36] FedEx, "2011 Annual Report," p. 9; at http://annualreport.ir.fedex.com/files/FedEx_Annual_Report_2011.pdf.

[37] United Parcel Service, "DEF14A: Definitive Proxy Statements," March 14, 2011, p. 35. Total compensation includes stock and option awards, non-equity incentives, change in pension value, non-deferred compensation, and other compensation. Mr. Davis's FY2010 total compensation was $4,483,964 greater than his FY2009 pay, and $4,443,565 greater than in FY2008. Mr. Davis became CEO of UPS on January 1, 2008.

[38] Ibid.

[39] United Parcel Service, "Worldwide Facts," at http://www.ups.com/content/us/en/about/facts/worldwide.html.

[40] Although created as a for-profit corporation, Amtrak, like intercity passenger rail operators in other countries, has not been able to make a profit. During the 35 years from 1971-2006, federal assistance to Amtrak amounted to approximately $30 billion. From FY2007-FY2010, Amtrak has received $7.0 billion in federal assistance. For more information on Amtrak's budget, see CRS Report RL33492, *Amtrak: Budget and Reauthorization*, by (name redacted) and (name redacted).

[41] The Rail Passenger Service Act of 1970 (P.L. 91-518) called for the creation of the National Railroad Passenger Corporation (now called Amtrak).

[42] P.L. 91-518, Section 303(d), 84 STAT. 1331.

[43] Amtrak, "2011 Annual Report," p. 46, at http://www.amtrak.com/servlet/ContentServer?c=Page&pagename=am%2FLayout&cid=1241245669222.

The Public Sector

While federal law permits USPS to set pay rates for certain employees at levels comparable to the private sector, USPS is a federal agency. It may be helpful, therefore, to examine the pay rates of other federal officials who serve in senior federal positions.

As noted earlier, the Vice President's pay is capped at $230,700 in 2012. The President's pay is $400,000. The President is provided an additional expense allowance, at present $50,000, which is not taxable and is to be used for official purposes only.[44] All cabinet department secretaries are paid at Level I of the Executive Schedule ($199,700 in 2012). When calculating total compensation for federal employees, the Congressional Budget Office generally adds 30% of the employee's pay. Total compensation of the cabinet secretaries, therefore, would be about $259,610 in FY2012.

There are few federal employees whose pay is higher than that of the President. Tom Kilgore, the President and Chief Executive Officer (CEO) of the Tennessee Valley Authority—a corporation owned by the U.S. Government, reported earning $850,000 in 2011.[45] Although TVA was appropriated government funds upon its inception, the Tennessee Valley Authority now operates entirely on power revenues.[46]

Table 2. FY2011 Pay Comparisons Between Selected CEOs and the PMG

Job Title	Government Employee or Private Sector	Total Compensation	Number of Employees	Total Revenue
U.S. Postmaster General	Government Employee	$384,229	645,950	$65.7 billion
CEO of FedEx	Private Sector	$7,260,000	255,573	$39.3 billion
CEO of UPS	Private Sector	$10,730,000 (in FY2010)	398,300	$53.1 billion
CEO of Amtrak	Private Sector	$350,000	20,156	$2.7 billion
CEO of the Tennessee Valley Authority	Government Employee	$850,000	12,000	$11.7 billion
Secretary of Defense[a]	Government Employee	About $259,610	770,000 civilian employees (including Armed Forces civilians)[b]	$688.6 billion (in congressional appropriations)[c]

Sources: Employee counts are taken from U.S. Postal Service, *2011 Annual Report* (Washington: USPS, 2009), pp. 15, 54; Revenues are from U.S. Postal Service, "2011 Report on Form 10-K" (Washington: USPS, 2011), p. 21; and; 5 U.S.C. §5312; DOD's employee count is from U.S. Office of Personnel Management, "FedScope Database," at http://www.fedscope.opm.gov/index.asp; FedEx, "2011 Proxy Statement to Shareholders," August

[44] "Official purposes" is not defined in 3 U.S.C. §102. For more information on the President's pay, see CRS Report RS20115, *President of the United States: Compensation*, by (name redacted).

[45] Tennessee Valley Authority, 2011 Form 10-K, November 18, 2011, p. 164, at http://files.shareholder.com/downloads/TVC/1552005517x0xS1376986-11-74/1376986/filing.pdf.

[46] Tennessee Valley Authority, "Frequently Asked Questions About TVA," at http://www.tva.com/abouttva/keyfacts.htm

15, 2011, p. 45; FedEx employee count and revenues are from FedEx, "2011 Annual Report," p. 9; at http://annualreport.ir.fedex.com/files/FedEx_Annual_Report_2011.pdf; UPS employee count and revenues are from United Parcel Service, "DEF14A: Definitive Proxy Statements," March 14, 2011, p. 35; United Parcel Service, "Worldwide Facts," at http://www.ups.com/content/us/en/about/facts/worldwide.html. Amtrak employee count, revenues, and benefits information is from Amtrak, "2011 Annual Report," p. 46, at http://www.amtrak.com/servlet/ContentServer?c=Page&pagename=am%2FLayout&cid=1241245669222; and information on TVA is from Tennessee Valley Authority, 2011 Form 10-K, November 18, 2011, p. 164, at http://files.shareholder.com/downloads/TVC/1552005517x0xS1376986-11-74/1376986/filing.pdf; and Tennessee Valley Authority, "About TVA," at http://www.tva.com/abouttva/index.htm.

a. **Table 2** includes the Secretary of Defense to demonstrate the pay and benefits of a Cabinet-level federal employee. The Congressional Research Service (CRS) used the Secretary of Defense, as opposed to other cabinet officers because the Department of Defense (DOD) is the Cabinet Department with the most similar employee count to USPS when civilian employees from all four military branches are included.

b. Employee data are taken from the Office of Personnel Management's FedScope database, which is a headcount of both full-time and part-time employees at the time of the survey. The database is available at http://www.fedscope.opm.gov/index.asp. CRS used the December 2011 civilian employee headcount for DOD and the Armed Forces.

c. The Department of Defense may have agencies within it that generate revenue. As a federal department, however, its primary mission is not to generate revenue. CRS included DOD in this analysis to demonstrate how USPS executive pay and benefits compare to that of another high-ranking federal employee. CRS included DOD's appropriation level to serve as a proxy for total revenue, which can be used to demonstrate the size and scope of a corporation or agency. For more detailed information on DOD appropriations, see CRS Report R41254, *Defense: FY2011 Authorization and Appropriations*, coordinated by (name redacted).

Concluding Observations

The 112th Congress has introduced legislation that would reduce or otherwise limit the compensation of postal executives and officers. Both the House and Senate proposals are components of bills that, in their entirety, seek to improve the Postal Service's condition.

Broadly speaking, USPS's present financial troubles are caused by falling revenues and rising operating costs.[47] In recent years, both the economic downturn and the widespread adoption of electronic communication have eroded postage sales. The USPS's operating costs have increased, in part, to the Postal Accountability and Enhancement Act (PAEA), which requires USPS to prefund its future retirees' health benefits at a cost of approximately $5.6 billion per year.[48] Federal law also obligates USPS to provide a wide range of services over a large geographic area six days per week at affordable and uniform prices.[49] This "universal service obligation," as the PRC has noted, costs the USPS approximately $4.4 billion per year. Meanwhile, the value of the USPS's monopoly (as the sole postal service provider), has fallen (because of the decline in mail volume) and generates perhaps $3.5 billion in annual revenues.[50]

[47] For more information on the USPS's financial condition, see CRS Report R41024, *The U.S. Postal Service's Financial Condition: Overview and Issues for Congress*, by (name redacted).

[48] P.L. 109-435, §803; 120 Stat. 3251-3252; 5 U.S.C §8909(d)(3)(A).

[49] For more information on the delivery and service obligations placed on USPS, see U.S. Postal Service, "Report on the Universal Postal Service and the Postal Monopoly," October 2008, at http://about.usps.com/universal-postal-service/usps-uso-report.pdf.

[50] These figures come from 2007 data. The PRC has not published a more recent calculation. Postal Regulatory Commission, "Report on Universal Postal Service and the Postal Monopoly," December 19, 2008, p. 5, at http://www.prc.gov/Docs/61/61628/USO%20Report.pdf.

USPS executives are in an unusual position. They operate an entity with substantial legally conferred advantages (e.g., USPS does not pay tax),[51] but they have limited control over many of the factors that drive USPS's revenues and costs. This makes it complex to assess the performance of USPS executives and align their pay accordingly. Whether the USPS runs a profit or deficit in any one year is not entirely dependent upon the actions of the USPS's top executives.

Congress may decide that current USPS executive pay rates are at the optimum level to attract appropriate candidates to USPS's executive roles—those who can balance USPS's autonomy, legal obligations, and oversight requirements. In that case, USPS would be authorized to pay up to 12 of its critical senior executives compensation greater than that of the Vice President—and in some cases the President—ranking the PMG and other senior executives at USPS among the highest paid federal employees. Maintaining these levels of pay would arguably more closely align the compensation of the PMG and other high-ranking USPS employees with the basic salary of private sector employees at comparable organizations.

Alternatively, Congress has the authority to modify USPS's executive pay structure and total compensation in a variety of ways. Reducing pay for critical USPS positions, for example, may bring USPS executives' salaries more closely in line with that of other top federal officials. Currently, postal executives may be paid as much as the secretaries of Cabinet departments, and up to 12 executives can receive pay at a rate higher than that of the Vice President. Postal executives' total compensation, therefore, may prompt questions about whether their jobs are worth more to the federal government than those of other senior federal officials.

It is unclear whether reducing executive compensation would encourage current USPS leadership to seek employment elsewhere in government or in the private sector. Pay reductions could also lead to lower levels of interest from qualified candidates for these positions. However, the same disincentive for federal service would apply to other senior executive positions across the government.

The nation's economic challenges and the USPS's persistent deficits are viewed by some as reasons for reducing USPS executive pay and eliminating bonuses. Yet, tying postal executive pay to the USPS's financial performance raises the question—is appropriate to increase executive compensation in better economic times or when the USPS runs profits?

Finally, USPS's use of deferred compensation has drawn considerable attention. On the one hand, deferred compensation (and executive perquisites) enable the USPS to offer more appealing compensation packages to individuals it wishes to hire or retain. On the other hand, deferred compensation and perquisites do not neatly comport with federal statutory pay caps, and might be viewed by some as a way to evade pay limits. Furthermore, deferred compensation also can lead to situations where individuals no longer employed by the USPS continue to draw significant compensation. Former PMG Potter, for example, will continue to receive deferred pay benefits until 2020 although he retired from USPS in FY2010. Such a prohibition, however, could make postal executive positions less attractive to candidates who are qualified for the jobs or prompt current USPS executives to seek employment outside of the service.

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[51] Michael Schuyler, "Legislative Proposals Would Modestly Trim Some Hidden Government Subsidies to Postal Service," Advisory No. 176, Institute for Research on the Economic of Taxation, July 15, 2004, p. 3, at http://iret.org/pub/ADVS-176.PDF.

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