Congressional Research Service

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

-name redacted-
Analyst in American National Government

August 10, 2012

Congressional Research Service
7-....
www.crs.gov
R41024

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

This report provides an overview of the U.S. Postal Service's (USPS's) financial condition, legislation enacted to alleviate the USPS's financial challenges, and possible issues for the 112th Congress.

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

In recent years, the USPS has experienced significant financial challenges. After running modest profits from FY2004 through FY2006, the USPS lost $25.4 billion between FY2007 and FY2011. Were it not for congressional action, the USPS would have lost an additional $9.5 billion.

In the first three quarters of FY2012, the USPS had an $11.5 billion operational loss. The USPS did not have sufficient cash to make a $5.5 billion payment to its Retiree Health Benefits Fund (RHBF) that was due on August 1, 2012. The USPS is unlikely to have sufficient liquidity to make a $5.6 billion RHBF payment due on September 30, 2012.

A number of ideas have been advanced that would attempt to improve the USPS's financial condition in the short term so that it might continue as a self-funding government agency. All of these reforms 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 to less than six days per week.

This report will be updated after the USPS releases its quarterly financial results in early November 2012, and in the interim should there be any 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 0.1% 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 (RHBF), which was established by the Postal Accountability and Enhancement Act of 2006 (PAEA; P.L. 109-435, §803; 120 Stat. 3251), is on-budget. (The RHBF 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-FY2011

Flattening Then Declining Revenues

After running modest profits from FY2004 through FY2006, the USPS lost $25.4 billion between FY2007 and FY2011.[4] Were it not for congressional action to reduce a statutorily required

[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 (name redacted), pp. 23-29.

[2] 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.

[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 (name redacted); and Office of Management and Budget, *Budget of the U.S. Government Fiscal Year 2012: Appendix* (Washington: GPO, 2011), pp. 1153-1154 and 1282-1286, at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/appendix.pdf.

[4] 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.

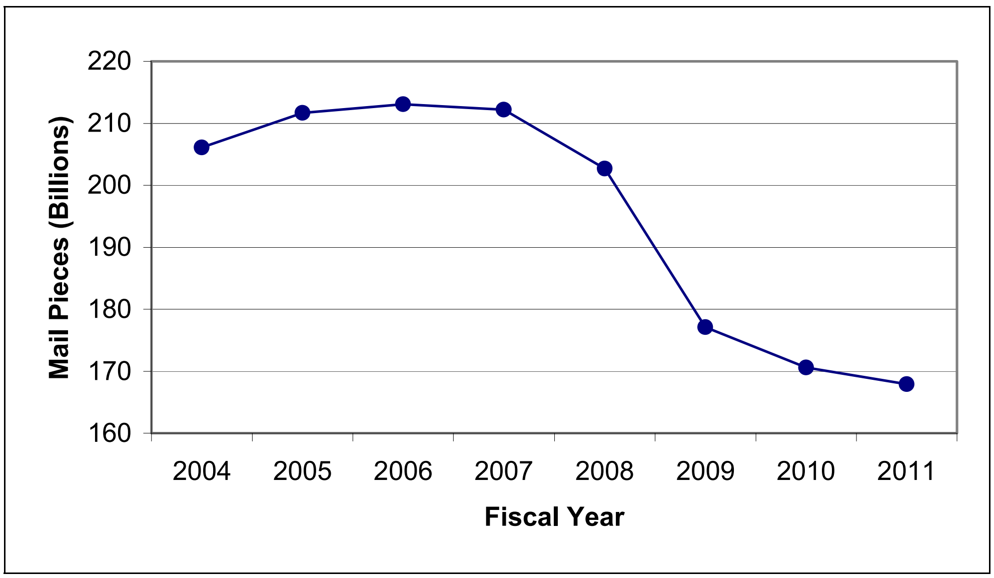
payment to the RHBF, the USPS would have lost an additional $9.5 billion. (On congressional actions to reduce and delay RHBF payments, see below.)

As the USPS's finances have deteriorated, its ability to absorb operating losses has been diminished. Between FY2005 and FY2011, the USPS's debt rose from $0 to $13 billion.[5] (The agency's statutory debt limit is $15 billion (39 U.S.C. 2005(a)(2)(C)).) 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 a peak of 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, between FY2009 and FY2011 mail volume declined further. Since FY2008, mail volume has fallen 17.7%, from 202.7 billion to 167.9 billion mail pieces (**Figure 1**), and operating revenues have declined 12.3%, from $74.9 billion to $65.7 billion (**Figure 2**).

Figure 1. The USPS's Mail Volume, FY2004-FY2011



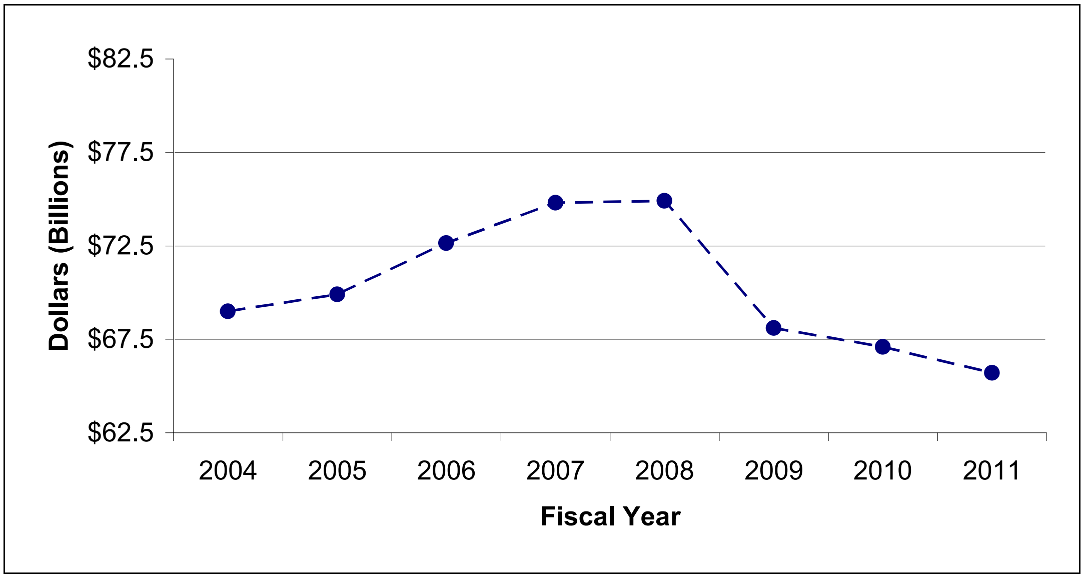
Source: U.S. Postal Service, *Annual Reports 2004-2010*; and U.S. Postal Service, "2011 Report on Form 10-K."

[5] U.S. Postal Service, "2011 Report on Form 10-K," p. 37; and U.S. Postal Service, *2007 Annual Report* (Washington: USPS, 2007), p. 3.

[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-FY2011



Source: U.S. Postal Service, *Annual Reports 2004-2010*; and U.S. Postal Service, "2011 Report on Form 10-K."

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 RHBF 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] Using the Office of Personnel Management's (OPM's) valuation methodology, the USPS reported that the unfunded obligation was $46.2 billion as of the end of FY2011.[11] (As noted later in this report, there has been disagreement as to the size of the USPS's unfunded obligation.)

[8] On the PAEA, see CRS Report R40983, *The Postal Accountability and Enhancement Act: Overview and Issues for Congress*, by (name redacted).

[9] P.L. 109-435, §803; 120 Stat. 3251-3252; 5 U.S.C §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. Postal Service, "2011 Report on Form 10-K," p. 28.

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

Fiscal Year	Payment Due Per PAEA (billions)	Status of Payment
2007	$5.4	Paid in full.
2008	$5.6	Paid in full.
2009	$5.4	$1.4 billion paid.[a]
2010	$5.5	Paid in full.
2011	$5.5	No payment.[b]
2012	$5.6	Due September 30, 2012.
2013	$5.6	Due September 30, 2013.
2014	$5.7	Due September 30, 2014.
2015	$5.7	Due September 30, 2015.
2016	$5.8	Due September 30, 2016.

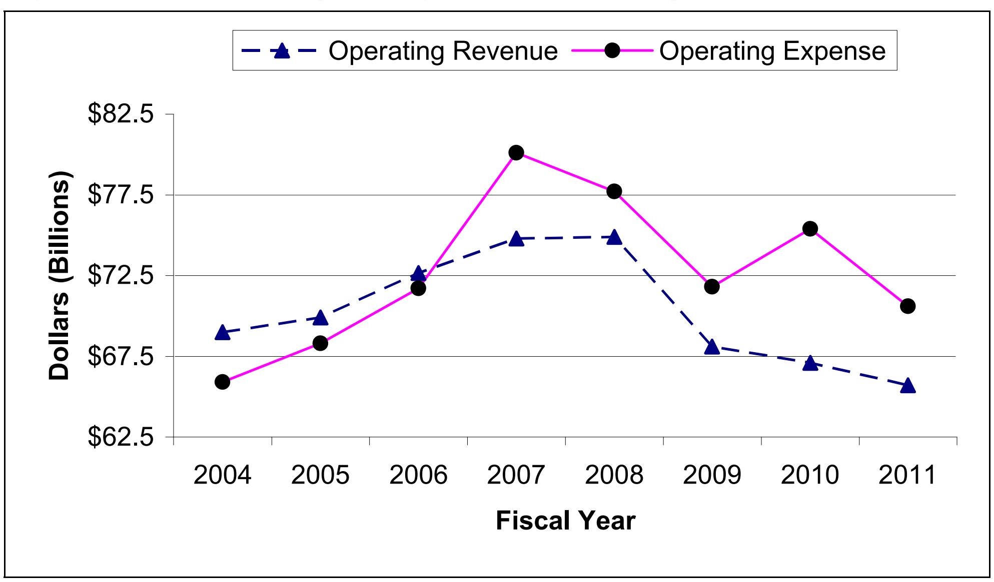
Source: Postal Accountability and Enhancement Act (P.L. 109-435, §803; 120 Stat. 3251-3252; 5 U.S.C §8909(d)(3)(A).)

a. Congress reduced the FY2009 payment amount from $5.4 billion to $1.4 billion (P.L. 111-68).

b. Congress has delayed the FY2011 payment due date to October 4, 2011 (P.L. 112-33, §124), November 18, 2011 (P.L. 112-36, §124), December 16, 2011 (P.L. 112-55, §101), and then August 1, 2012 (H.Rept. 112-331).

As **Figure 3** shows, the USPS's operating expenses spiked after the USPS began paying into the RHBF in FY2007.

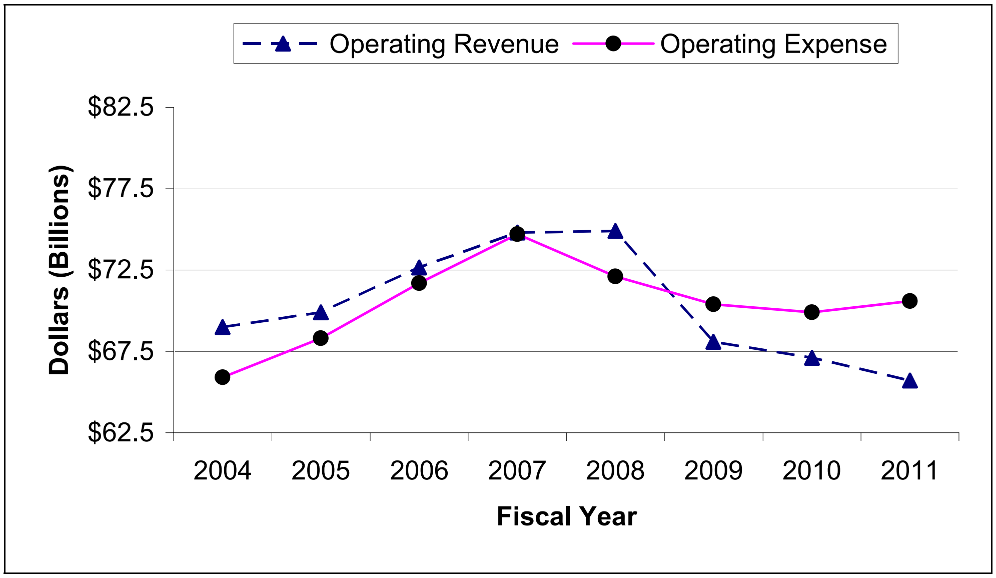
Figure 3. The USPS's Operating Revenues and Expenses, FY2004-FY2011



Source: U.S. Postal Service, *Annual Reports 2004-2010*; and U.S. Postal Service, "2011 Report on Form 10-K."

Initially, 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. However, despite Congress's reduction of the RHBF payment owed in FY2009 and its delay of the RHBF payment owed in FY2011, the USPS's expenses exceeded its revenues these years.

Figure 4. The USPS's Operating Income Without the Annual PAEA Payments to the Postal Service Health Benefits Fund, FY2004-FY2011



Source: U.S. Postal Service, *Annual Reports 2004-2010*; U.S. Postal Service, "2011 Report on Form 10-K"; and Postal Accountability and Enhancement Act (P.L. 109-435, §803; 120 Stat. 3251-3252.)

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

Liquidity Concerns

At the conclusion of FY2011, the USPS had $1.5 billion in cash, which is a low level for an agency with an average weekly operating expense of nearly $1.4 billion.[12]

To conserve cash, the USPS suspended its biweekly $114 million contribution to the Federal Employee Retirement System (FERS) on June 24, 2011.[13] After seeking an opinion from the Department of Justice on the legality of this action, the USPS reported on November 15, 2011, that it "expected" to resume paying the bi-weekly FERS payment, and that it owed $911 million as of September 30, 2011.[14]

One positive development was that the USPS was able to make its $1.3 billion payment to the Department of Labor for worker's compensation in October 2011.[15] In its FY2011, third quarter

[12] U.S. Postal Service, "2011 Report on Form 10-K," p. 32. The USPS had an operating expense of $70.6 billion during the 52 weeks of FY2011, an amount which equals nearly $1.4 billion per week. The USPS's operating expense would have been $76.1 billion had Congress not deferred the due date of the agency's FY2011 RHBF payment.

[13] U.S. Postal Service, "Form 10-Q," p. 9.

[14] U.S. Postal Service, "2011 Report on Form 10-K," p. 34.

[15] Ibid., p. 30.

financial statement, the USPS had expressed concern that it might not be able to do so, a default that would have had significant negative impact on the worker's compensation fund.[16]

The USPS's Financial Difficulties, FY2012

In the first three quarters of FY2012, the USPS had an operating loss of $11.5 billion, which included an $11.1 billion charge for payments due to the RHBF in FY2012.[17] The agency had $12.6 billion in debt, and a relatively weak cash position of $893 million.[18] By law, the USPS's total debt may not exceed $15 billion—so, the USPS may borrow only $2.0 billion more from the Federal Financing Bank (FFB).

The USPS did not have sufficient cash to make a $5.5 billion payment to its Retiree Health Benefits Fund (RHBF) that was due on August 1, 2012. The USPS is unlikely to have sufficient liquidity to make a $5.6 billion RHBF payment due on September 30, 2012. The USPS reports that

> current projections indicate that the Postal Service will have a low level of cash and liquidity at September 30, 2012. This position will worsen in October of 2012, when the Postal Service is required to make its annual reimbursement payment of approximately $1.4 billion to the Department of Labor ... for worker's compensation, in addition to paying its normal operating expenses.[19]

The USPS may suffer a liquidity shortfall in October, meaning it temporarily would not have sufficient cash in hand to cover its operating costs.[20] However, the USPS has not suggested that a short-term, zero-cash scenario would produce a suspension of operations this autumn.[21] Postmaster General Patrick Donahoe stated in an interview that the USPS could preserve sufficient cash to maintain operations until "late next year," although he did not clarify whether he was referring to calendar or fiscal year 2013.[22]

The USPS will report its FY2012 year-end financial results in early November 2012.[23]

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[16] U.S. Postal Service, "Form 10-Q," p. 8; and Brian V. Kennedy, Assistant Secretary for Congressional and Intergovernmental Affairs, Department of Labor, letter to Chairman Darrell Issa, August 1, 2011.

[17] U.S. Postal Service, "Form 10-Q," August 9, 2012, p. 2.

[18] Ibid., pp. 11 and 6.

[19] Ibid., p. 8.

[20] U.S. Postal Service Office of Inspector General, "Review of Fiscal Years 2012 and 2013 Liquidity," Report Number FI-WP-12-001, July 25, 2012, at http://www.uspsoig.gov/foia_files/FI-WP-12-001.pdf.

[21] Organizations reaching zero cash may be able to continue operations through a number of means—such as delaying the payment of obligations or selling assets—until sufficient revenues arrive. For the USPS, the quarter beginning in October tends to bring the most revenue per year.

[22] U.S. Postal Service Postmaster General, Patrick Donahoe, "Newsmakers," CSPAN, interview, April 27, 2012, at 24 minutes, 24 seconds, at http://www.c-spanvideo.org/program/Donaho. The USPS could preserve cash for operations by delaying payments to the Federal Employee Retirement System or to the Department of Labor for worker's compensation. See U.S. Postal Service Office of Inspector General, "Review of Fiscal Years 2012 and 2013 Liquidity," pp. 1-2.

[23] 39 U.S.C. 3654(a)(1) requires the USPS to file its quarterly financial reports within 40 days of the end of each quarter. Quarter four concludes on September 30, 2012.

Congress Alleviated the USPS's Immediate Financial Distress in FY2009 and FY2011

On September 30, 2009, the last day of FY2009, 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 did not relieve the USPS of this $4 billion obligation; rather, it deferred the 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.

In autumn 2011, Congress again aided the USPS. Congress delayed the due date of the FY2011 payment ($5.5 billion) to October 4, 2011 (P.L. 112-33, §124), November 18, 2011 (P.L. 112-36, §124), to December 16, 2011 (P.L. 112-55, §101), and then August 1, 2012 (H.Rept. 112-331).

Issues for Congress

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?[24]

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 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) reported that USPS carries 10 types of mail at postage rates that are below their costs. For example, the USPS's costs for processing and delivering periodicals exceeded the postage it received by $609 million in FY2011.[25]

Currently, federal law forbids the USPS from increasing postage rates annually higher than the Consumer Price Index (39 U.S.C. 3622(d)(1)(A)) absent "exceptional or extraordinary

[24] Some observers have suggested that mail volumes will continue to decline because of the substitution of Internet- and 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.

[25] Postal Regulatory Commission, *Annual Compliance Determination, FY2011* (Washington: PRC, March 28, 2012), pp. 92 and 103, at http://www.prc.gov/Docs/81/81771/FY%202011%20ACD.pdf.

circumstances." Congress may wish to further examine these disparities and provide the USPS with additional pricing flexibilities that would enable it to recover more revenue.[26]

In a July 6, 2010, filing with the PRC, the USPS stated that a recent sharp decline in mail volume constituted an exceptional or extraordinary circumstance.[27] It asked the PRC to permit it to increase postage rates 5.6%, an amount much higher than the CPI. The PRC denied the USPS's request on September 30, 2010, essentially arguing that the USPS failed to demonstrate that its professed need to raise rates was produced by "an exceptional or extraordinary circumstance." Instead, the PRC stated "Postal Service's cash flow problem is not a result of the recession and would have occurred whether or not the recession took place. It is the result of other, unrelated structural problems and the proposed exigent rate adjustments would neither solve nor delay those problems."[28] After the USPS filed suit, a federal court of appeals remanded the matter to the PRC in July 2011, asking the PRC to clarify a technical matter related to the size of permissible exigent rate increases.[29]

The USPS has said it will again pursue an exigent rate increase,[30] and it raised its prices an amount within the rate cap on January 22, 2012.[31]

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.[32] 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 RHBF Obligation and Payments

At the end of FY2011, the USPS's Retiree Health Benefits Fund had a balance of $44.1 billion, and an unfunded obligation of $46.2 billion.[33]

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[26] 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.

[27] U.S. Postal Service, "Exigent Request of the United States Postal Service," July 6, 2010, at http://www.prc.gov/Docs/68/68792/Request.Final.pdf, pp. 1-2.

[28] Postal Regulatory Commission, "PRG Denies Postal Service Exigent Rate Request, Decision is Unanimous," press release, September 30, 2010, p. 1, at http://prc.gov/prc-docs/home/whatsnew/R2010-4%20Press%20Release_1393.pdf.

[29] Postal Regulatory Commission, "PRC Order Gives Guidance to Postal Service on Exigency Rate Case Process," press release, September 20, 2011.

[30] U.S. Postal Service, "Statement on Proceeding with Exigent Pricing Relief," press release, November 7, 2011.

[31] U.S. Postal Service, "Field Information Kit: January 22, 2012, Domestic and International Shipping Services Price Change," January 22, 2012, at http://about.usps.com/postal-bulletin/2011/pb22326/html/kit.htm.

[32] 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 (name redacted), pp. 10-13.

[33] U.S. Postal Service, "2011 Report on Form 10-K," p. 28.

The USPS has to make six more PAEA-mandated future retiree health benefits payments for the years of FY2011 through FY2016. These remaining payments average more than $5.6 billion per year and amount to $33.9 billion. These payments will make up a significant portion (more than 7%) of the USPS's approximately $75 billion annual operating expenses.[34]

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. 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.[35] The OPM questioned the assumptions used by the USPSOIG.[36] The PRC reviewed both the USPSOIG's and the 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 the 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 said that the USPS could pay $3.4 billion per year and fully fund the RHBF by FY2016.[37]

To a degree, these disputes over the amount the USPS should pay each year into the RHBF have been eclipsed by the question of what the USPS can pay. As noted above, the Postal Service is due to pay $11.1 billion in RHBF payments by September 30, 2012, and the agency does not have sufficient funds to do so.[38]

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 to levels that the agency may reasonably be expected to be capable of paying.

Reducing the USPS's FERS Pension Costs

Like other federal employees, most current USPS employees participate in the Federal Employee Retirement System. The OPM Inspector General (OPMIG) explains:

> [The] FERS is designed to be fully funded by employee and agency contributions. Each year, as required by law, the OPM calculates the Federal Government's and the USPS's liabilities

[34] For a consideration of future retiree health benefits pre-fuding and the USPS's financial difficulties, see Michael Schuyler, *Why The U.S. Postal Service Is In Greater Financial Trouble Than Most Foreign Posts—The Role of Postal Retiree Health Care Benefits*, Institute for Research on the Economics of Taxation, April 11, 2012, at http://iret.org/pub/ADVS-283.PDF.

[35] 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.uspsoig.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.

[36] 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.

[37] 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), p. 22, at http://www.prc.gov/Docs/63/63987/Retiree%20Health%20Fund%20Study_109.pdf.

[38] U.S. Postal Service, "Form 10-Q," May 2012, p. 38.

> under [the] FERS to see if there is a surplus or a supplemental liability. If there is a supplemental liability, the OPM establishes an amortization schedule so that the liability is paid off completely in 30 years. The statute does not contemplate what would happen should a surplus exist.[39]

The USPS has contended that it has paid at least $10.9 billion more into its FERS pensions than is required.[40] It has asked for the funds to be returned to it. The USPS also justified its temporary decision to suspend FERS contributions in 2010 on the basis that it had overpaid and needed to conserve cash.

The OPMIG has found merit in the USPS's contention but noted that a statute would need to be enacted to authorize the OPM the refund the money.[41]

Congress could either temporarily reduce the USPS's current payment schedule, or it could direct the OPM to refund any overpayment.

Reducing the USPS's CSRS Pension Costs[42]

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.[43] The report criticized the allocation of the pension costs between the USPS and the federal government for employees who had service both as employees of the Post Office Department and later as employees of the Postal Service.

The USPSOIG report noted 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 contended 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

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[39] Office of Personnel Management Office of Inspector General "A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits," February 28, 2011, p. 23, at http://www.opm.gov/oig/OPM_OIG_Study_of_USPS_OIG_Proposals%20Feb%2028%202011.pdf.

[40] U.S. Postal Service, "Form 10-Q," May 2012, p. 9.

[41] Office of Personnel Management Office of Inspector General "A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits," February 28, 2011, pp. 22-25 , at http://www.opm.gov/oig/OPM_OIG_Study_of_USPS_OIG_Proposals%20Feb%2028%202011.pdf.

[42] Much of this section was written by (name redacted), former Specialist in Income Security, Domestic Social Policy Division, Congressional Research Service.

[43] U.S. Postal Service Office of Inspector General, "The Postal Service's Share of CSRS Pension Responsibility," January 20, 2010, at http://www.uspsoig.gov/foia_files/RARC-WP-10-001.pdf.

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

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

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

In March 2010, the PRC said that it would examine the USPS's pension liability in response to the USPS's request.[44] The agency hired a private auditor, the Segal Group Inc., to produce a report, which the PRC released publicly on June 30, 2010.[45] The report largely agreed 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."[46]

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[44] 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. Federal law directs the PRC to conduct a review upon request from the USPS (5 U.S.C. 8348 note).

[45] 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.

[46] Postal Regulatory Commission, "PRC Report Finds $50 Billion Discrepancy," press release, June 30, 2010, at http://www.prc.gov/prc-docs/home/whatsnew/
(continued...)

The OPMIG has contested the USPSOIG's claims.[47] It has said that the current apportionment of the CSRS pension costs is in line with both congressional intent and federal law. Additionally, the OPMIG warned that allowing the USPS to draw back any CSRS pension funds would "create a dangerous precedent" by permitting pension funds to be used for purposes other than the payment of benefits owed.[48] Similarly, the GAO has stated the USPS has not "overpaid" its CSRS obligation, finding, "The current methodology used by OPM for allocating responsibility for CSRS benefits between USPS and the federal government is consistent with applicable law."[49]

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.[50] (USPS employees pay approximately 21% of their health care premium costs and 0% of their life insurance premiums, while other federal employees pay 28% and 67%, respectively.)[51] 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.[52]

A study released by the USPSOIG in September 2010 suggested the USPS could save $700 million per year were its employees required to contribute at the same rate as other federal employees.[53]

Reducing the USPS's Retail and Nonretail Facilities

In recent years, the USPS has moved to close some of its facilities:

- between 2006 and 2011, the USPS reduced the number of its area and district offices from 89 to 74;[54]

(...continued)

PRC%20issues%20study%20of%20USPS%20CSRS%20liability%20draft%20(2)_1119.pdf.

[47] Office of Personnel Management Office of Inspector General "A Study of the Risks and Consequences of the USPS OIG's Proposals to Change USPS's Funding of Retiree Benefits."

[48] Ibid., p. ii.

[49] Government Accountability Office, *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, GAO-112-146, October 2011, p. 1, at http://www.gao.gov/new.items/d12146.pdf.

[50] 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.

[51] "Union Negotiations Are Critical for USPS Future," *Postcom Bulletin: The Journal of Postal Commerce*, September 3, 2010, p. 4. See also Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, GAO-09-958 (Washington: GAO, August 6, 2009), p. 5, at http://www.gao.gov/new.items/d09958t.pdf.

[52] 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.

[53] U.S. Postal Service Office of Inspector General, "Management Advisory–Follow-Up Review of the Postal Service's Employee Benefit Programs," HR-MA-10-001, September 3, 2010, at http://www.uspsoig.gov/FOIA_files/HR-MA-10-001.pdf.

[54] USPS area and district offices are staffed by employees who oversee USPS mail processing facilities and retail (continued...)

- in late July 2011 USPS began an initiative to consider the closure of 3,652 retail postal facilities;[55] and,
- in May 2012, the USPS announced it would close 48 mail processing facilities before September, and an additional 98 facilities between January and February 2013.[56] The agency has said it will not close any mail processing facilities during the autumn due to "the volume of high-priority mail predicted for the election and holiday mailing seasons."

GAO repeatedly has contended that the USPS has not reduced its number of retail postal facilities (post offices) and mail processing plants sufficiently:

> Approximately 80 percent of its retail facilities do not generate sufficient revenue to cover their costs. Moreover, the number of USPS-operated retail facilities, about 32,000, has remained largely unchanged over the past 5 years even as visits to, and transactions at, postal retail facilities have decreased by about 16 percent and 18 percent, respectively.[57]
>
> The USPS processing and transportation networks were developed during a time of growing mail volume, largely to achieve service standards for First-Class Mail and Periodicals, particularly the overnight service standards.... [The] USPS and other stakeholders have long recognized the need for USPS to reduce excess capacity in its mail processing network.[58]

Over the past five years, the USPS has reduced its facility footprint a modest 3.1%, from 34,318 to 33,260 (**Figure 5**).[59] One factor affecting the pace of USPS closures is stakeholder resistance.[60] In response to criticism, the USPS has slowed or scaled back both its plans for proposed post office and mail processing facility closures.[61]

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operations. Government Accountability Office, *U.S. Postal Service: Field Offices' Role in Cost-Reduction and Revenue-Generation Efforts*, GAO-12-506, April 2012, p. 28.

[55] These are not the only USPS facilities that might discontinue operations. An additional 728 retail postal facilities are being considered for closure under a 2009 USPS initiative, for a total of 4,380 USPS retail facilities. CRS Report R41950, *The U.S. Postal Service: Common Questions About Post Office Closures*, by (name redacted), pp. 3-4.

[56] U.S. Postal Service, "Postal Service Moves Ahead with Modified Network Consolidation Plan," press release, May 17, 2012. The list of mail processing facilities that may be closed is at http://about.usps.com/news/electronic-press-kits/our-future-network/assets/pdf/NetworkOpt_May17.pdf

[57] Government Accountability Office, *U.S. Postal Service: Challenges Related to Restructuring the Postal Service's Retail Network*, GAO-12-433, April 2012, pp. 1-2.

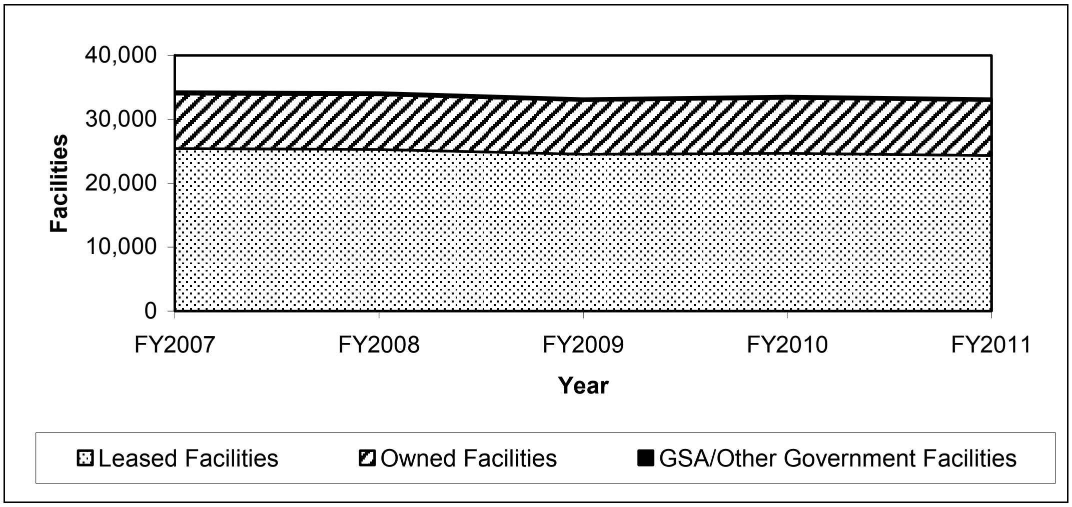
[58] Government Accountability Office, *U.S. Postal Service, Mail Processing Network Exceeds What Is Needed for Declining Mail Volume*, GAO-12-470, April 2012, pp. 6 and . See also Government Accountability Office, *Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*, pp. 3-4.

[59] 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.

[60] Government Accountability Office, *U.S. Postal Service: Challenges Related to Restructuring the Postal Service's Retail Network*, pp. 11-18.

[61] U.S. Postal Service, "Statement on Delay of Closing or Consolidation of Post Offices and Mail Processing Facilities," press release, December 13, 2011, at http://about.usps.com/news/national-releases/2011/pr11_1213closings.htm; and John H. Cushman and Ron Nixon, "Postal Service Holds Back on Closings," *New York Times*, May 9, 2012, at http://www.nytimes.com/2012/05/10/us/politics/postal-service-holds-back-on-closures.html.

Figure 5. U.S. Postal Service Retail and Non-Retail Facilities, FY2007-FY2011



Source: U.S. Postal Service, Annual Report 2007, p. 19 and "2011 Report on Form 10-K," p. 11.

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

Congress may wish to consider providing the USPS with additional authority to reduce its facilities. As a related matter, both houses of Congress also may wish to consider enacting rules to prevent congressional intervention in proposed mail facility closures.[62] Alternatively, Congress might enact a law to authorize appropriations to reimburse the USPS for cost-savings lost because of congressionally imposed delays in facilities closures.

Reducing Mail Delivery from Six to Five Days Per Week

GAO has suggested that Congress consider permitting the USPS to reduce its delivery schedule from six to five days, a policy with which the USPS concurs.[63]

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

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

[63] 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/.

the same percentage of recipients of 6-day delivery as in 1983."[64] 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, four studies (two by the USPS and two by the PRC) have examined the possible financial effects of a switch from six-day to five-day delivery.[65] 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 $1.7 billion to $3.5 billion.[66] (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.[67] The USPS did note that it would provide at least six months' notice prior to switching to five-day delivery.[68]

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 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.[69] The PRC issued its advisory opinion in March 2011, which suggested cutting Saturday delivery would reduce the USPS's annual operating costs $1.7 billion.

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.[70] 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

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[64] 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.

[65] U.S. Postal Service, *Report on the Universal Postal Service and the Postal Monopoly* (Washington: USPS, October 2008); Postal Regulatory Commission, *Report on the Universal Postal Service and the Postal Monopoly*; U.S. Postal Service, *Delivering the Future: Five-Day Delivery is Part of the Solution*; and Postal Regulatory Commission, *Advisory Opinion On the Elimination of Saturday Delivery* (Washington, PRC: March 24, 2011), Docket No. N2010-1.

[66] CRS Report R40626, *The U.S. Postal Service and Six-Day Delivery: Issues for Congress*, by (name redacted).

[67] U.S. Postal Service, *Delivering the Future: Five-Day Delivery Is Part of the Solution* (Washington: USPS, March 2010), pp. 22-23.

[68] Ibid., p. 2 of executive summary.

[69] 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, *An Act Making Appropriations for Financial Services and General Government for the Fiscal Year Ending September 20, 2011, and for Other Purposes*, 111th Congress, 2nd sess., March 18, 2010, S. Hrg. 111-817 (Washington, GPO: 2010), p. 41, at http://www.gpo.gov/fdsys/pkg/CHRG-111shrg54968/pdf/CHRG-111shrg54968.pdf.

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

conditions through collective bargaining."[71] 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).[72]

The USPS utilized attrition to reduce its workforce from 696,138 to about 544,000 since FY2006.[73] The USPS also has used early retirement incentives and buy-outs to lower its employment cohort.[74] For example, approximately 21,000 postmasters recently were offered incentives to retire.[75] Nevertheless, the USPS also has asked Congress to enact a statute to authorize it to override collective bargaining prohibitions on layoffs so as to enable the USPS to eliminate an additional 120,000 positions by FY2015.[76]

According to the USPSOIG, "over 189,000 Postal Service employees will meet the age and service eligibility requirements for retiring with an immediate annuity" in 2012.[77] Congress may wish to consider measures that would provide the USPS with increased means to control its long-term labor costs, perhaps by encouraging retirement-eligible employees to conclude their employment.[78]

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[71] 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.

[72] 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.

[73] U.S. Postal Service, *Annual Report 2010*, p. 83; and U.S. Postal Service, "Form 10-Q," May 2012.

[74] In FY2009, 20,100 of its unionized employees accepted early retirement offers, and in FY2010 approximately 1,850 of its administrative employees accepted buy-outs. U.S. Postal Service, *Annual Report 2009*, p. 54; and U.S. Postal Service, 10-Q, p. 25.

[75] U.S. Postal Service, "New Strategy to Preserve the Nation's Smallest Post Offices," press release, May 9, 2012, at http://about.usps.com/news/national-releases/2012/pr12_054.htm; and National League of Postmasters of the United States, "2012 Special Incentive Offer FAQs," May 9, 2012, at http://www.postmasters.org/news/Postplan/Incentive_FAQs05092012.pdf

[76] U.S. Postal Service, "Workforce Optimization," white paper, August 2011, at http://about.usps.com/news/national-releases/2011/pr11_wp_workforce_0812.pdf. The USPS also has asked Congress to permit it to move its workforce off the federal government's health insurance and retirement programs. U.S. Postal Service, "Health Benefits and Retirement Programs," white paper, August 2011, at http://about.usps.com/news/national-releases/2011/pr11_wp_hbretirees_0812.pdf.

[77] U.S. Postal Service Office of Inspector General, "Employee Retirement Options: Management Advisory Report," HR-MA-12-001, May 20, 2012, p. 2.

[78] The 2003 presidential commission on the USPS advocated this goal. President's Commission on the United States Postal Service, *Embracing the Future*, pp. 138-140.

Author Contact Information

(name redacted)
Analyst in American National Government
[redacted]@crs.loc.gov, 7-....