United States Government Accountability Office

Report to Congressional Committees

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HIGH-RISK SERIES

An Update

GAO-15-290

Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability

Why Area Is High Risk

Amid challenging economic conditions, a changing business environment, and declining mail volumes, the U.S. Postal Service (USPS) continues to be in a serious financial crisis, with insufficient revenues to cover its expenses and financial obligations.

Mail volume has declined by 27 percent from its peak—213 billion pieces—in fiscal year 2006 to about 155 billion pieces in fiscal year 2014. Further, volume for First-Class Mail, USPS's most profitable product, has declined by 35 percent since 2006 and is expected to continue declining. This volume trend exposes weaknesses in USPS's business model, which has relied on mail volume growth to help cover USPS expenses. Even though USPS has reduced its costs by $8 billion over the past 2 years and revenue has increased for other products, such as shipping and package services, it ended fiscal years 2013 and 2014 with net losses of $5 billion and $5.5 billion, respectively. USPS actions to improve its financial condition have been limited in part by legal requirements, such as those related to changing the frequency of mail delivery and closing unneeded facilities. In July 2009, we added USPS's financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based restructuring.

What GAO Found

Source: GAO analysis. | 2015 High Risk List GAO-15-290

USPS has partially met all five of the criteria for removal from the High Risk List. USPS has demonstrated leadership commitment, updated its 5-year business plan, monitored and reported on its progress in taking actions to reduce its costs, the size of its workforce, and its mail processing infrastructure, as well as improve productivity and increase revenues from package shipments. However, even though the decline in mail volume and revenue has slowed, USPS continues to face great uncertainty and risk related to its financial condition. Mail volume is highly sensitive to economic changes and the profit margin on packages is much lower as compared to First-Class Mail. Further, USPS is limited in its ability to resolve all of its financial difficulties, in part, due to statutory limitations, such as a provision in USPS's annual appropriations that prevents it from reducing mail delivery service from 6 to 5 days per week. USPS's business plan also identified specific legislative changes needed for USPS to return to long-term financial health. But, the 113th Congress did not pass proposed comprehensive postal reform legislation.

USPS has improved its financial condition. However, it is not on a sustainable path. USPS has suffered 8 consecutive years of net losses and has been unable to cover the costs of its financial obligations. USPS did not make its legally-required retiree health benefit prefunding payments totaling $22.4 billion for the last 4 years. At the end of fiscal year 2014, USPS had about $102 billion in unfunded liabilities: $87 billion in unfunded liabilities for benefits, including retiree health, pension, and workers' compensation liabilities, and $15 billion in outstanding debt to the U.S. Department of the Treasury—the statutory debt limit. These unfunded liabilities are a large and growing financial burden, increasing from 83 percent of USPS revenues in fiscal year 2007 to 150 percent of revenues in fiscal year 2014. Unfunded benefit liabilities represent estimated future benefit payments to current and retired employees for which USPS has not set aside sufficient money to pay. Further, of USPS's $67.8 billion in total revenue in fiscal year 2014, about $1.4 billion was due to USPS's first time use of pricing authority granted in 2006. The Postal Accountability and Enhancement Act established an inflation-based price-cap system, which authorized an additional surcharge under certain extraordinary or exceptional circumstances. To compensate for recession-driven losses, USPS added a 4.3 percent surcharge to a 1.7 percent inflation-based price increase implemented in January 2014. Mailers have raised concerns about the use of, duration, and uncertainty associated with this pricing surcharge. Litigation regarding the surcharge is ongoing. USPS urgently needs to restructure to reflect changes in its customers' use of the mail, align its costs with revenues, generate sufficient funding for capital investment, and manage its debt (see table 6).

Table 6: USPS Financial Results, Fiscal Years 2006 through 2014

Numbers in billions

Fiscal Year	Net income	Year-end debt	Total mail volume
2006	$0.9	$2.1	213
2007	(5.1)	4.2	212
2008	(2.8)	7.2	203
2009	(3.8)	10.2	177
2010	(8.5)	12.0	171
2011	(5.1)	13.0	168
2012	(15.9)	15.0	160
2013	(5.0)	15.0	158
2014	(5.5)	15.0	155

Source: USPS. | GAO-15-290

Note: Congress reduced USPS's retiree health benefit prefunding payment by $4 billion in fiscal year 2009, and delayed its $5.5 billion prefunding payment for fiscal year 2011 until August 2012. USPS did not make the prefunding payments totaling $22.4 billion for fiscal years 2011 through 2014. Also, USPS has reached its $15 billion statutory debt limit.

We have issued a number of reports that included strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. USPS has already acted on many of these strategies and options. It updated its 5-year business plan in April 2013 with specific actions to close a projected $20 billion gap between its costs and revenues by 2017. Also, USPS monitored and reported on the actions it took in fiscal years 2013 and 2014 to implement parts of the plan that did not require congressional action. These actions included reducing its career workforce by about 40,000 employees and closing 99 mail processing facilities as a result of consolidating its mail processing network.

We have also reported that USPS's actions alone under its existing authority will be insufficient to achieve sustainable financial viability and that comprehensive legislation is urgently needed. USPS has asked Congress to restructure the funding of its pension and retiree health benefit obligations and allow it to reduce the frequency of mail delivery from 6 to 5 days per week. Both the House of Representatives and Senate oversight committees passed postal reform legislation in the 113th Congress. But, the full Congress did not pass either bill. The President's fiscal year 2013 and 2014 budget requests also proposed postal reforms, including restructuring USPS pension and retiree health benefit funding and giving USPS the authority to reduce mail delivery frequency from 6 to 5 days.

What Remains to Be Done

Congress and USPS need to reach agreement on a comprehensive package of actions that Congress can pass to improve USPS's financial viability, including (1) modifying USPS's retiree health benefit payments in a fiscally responsible manner; (2) facilitating USPS's ability to better align costs with revenues; and (3) requiring any binding arbitration in the negotiation process for USPS labor contracts to take USPS's financial condition into account. USPS also needs to continue taking action to reduce costs related to its operations, workforce, and facilities, as well as increase revenues so that it can eliminate its net losses, repay its debt, and generate capital for investments, such as replacing its aging vehicle fleet.

GAO Contact

For additional information about this high-risk area, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

Related GAO Products

U.S. Postal Service: Status of Workforce Reductions and Related Planning Efforts. GAO-15-43. Washington, D.C.: November 13, 2014.

U.S. Postal Service: Delivery Mode Conversions Could Yield Large Savings, but More Current Data Are Needed. GAO-14-444. Washington, D.C.: May 12, 2014.

U.S. Postal Service: Action Needed to Address Unfunded Benefit Liabilities. GAO-14-398T. Washington, D.C.: March 13, 2014.

U.S. Postal Service: Actions Needed to Strengthen the Capital Investment Process. GAO-14-155. Washington, D.C.: January 7, 2014.

U.S. Postal Service: Health and Pension Benefits Proposals Involve Trade-offs. GAO-13-872T. Washington, D.C.: September 26, 2013.

U.S. Postal Service: Proposed Health Plan Could Improve Financial Condition, but Impact on Medicare and Other Issues Should Be Weighed before Approval. GAO-13-658. Washington, D.C.: July 18, 2013.

U.S. Postal Service: Opportunities to Increase Revenue Exist with Competitive Products; Reviewing Long-Term Results Could Better Inform Promotions Decisions. GAO-13-578. Washington, D.C.: June 25, 2013.

U.S. Postal Service: Urgent Action Needed to Achieve Financial Sustainability. GAO-13-347T. Washington, D.C.: February 13, 2013.

U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products. GAO-13-216. Washington, D.C.: January 15, 2013.

U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability. GAO-10-455. Washington, D.C.: April 12, 2010.