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Highlights

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# U.S. POSTAL SERVICE

## Urgent Action Needed to Achieve Financial Sustainability

### Why GAO Did This Study

USPS is in a serious financial crisis as its declining mail volume has not generated sufficient revenue to cover its expenses and financial obligations. First-Class Mail—which is highly profitable and generates the majority of the revenues used to cover overhead costs—declined 33 percent since it peaked in fiscal year 2001, and USPS projects a continued decline through fiscal year 2020. Declining mail volume is putting USPS's mission of providing prompt, reliable, and efficient universal services to the public at risk.

This testimony discusses (1) USPS's financial condition, (2) initiatives to reduce costs and increase revenues, and (3) actions needed to improve USPS's financial situation. The testimony is based primarily on our past and ongoing work and our analysis of USPS's recent financial results.

In previous reports, GAO has provided strategies and options that USPS and Congress could consider to better align USPS costs with revenues and address constraints and legal restrictions that limit USPS's ability to reduce costs and improve efficiency. GAO has also stated that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

View GAO-13-347T. For more information, contact Lorelei St. James at (202) 512-2834 or stjamesl@gao.gov.

### What GAO Found

The U.S. Postal Service (USPS) continues to incur unsustainable operating deficits, has not made required payments of $11.1 billion to prefund retiree health benefits, and has reached its $15 billion borrowing limit. Thus far, USPS has been able to operate within these constraints, but now faces a critical shortage of liquidity that threatens its financial solvency and ability to finance needed capital investment. USPS had an almost 25 percent decline in total mail volume and net losses totaling $40 billion since fiscal year 2006 (see table). While USPS achieved about $15 billion in savings and reduced its workforce by about 168,000 over this period, its debt and unfunded benefit liabilities grew to $96 billion by the end of fiscal year 2012. USPS expects mail volume and revenue to continue decreasing as online bill communication and e-commerce expand.

**Table: USPS Financial and Operational Information, Fiscal Years 2006 through 2012**

| Fiscal year | Net income ($ in billions) | Annual savings ($ in billions) | Total mail volume (billions) | Career employees (thousands) |
|---|---|---|---|---|
| 2006 | $0.9 | $0.3 | 213 | 696 |
| 2007 | (5.1) | 1.2 | 212 | 685 |
| 2008 | (2.8) | 2.0 | 203 | 663 |
| 2009 | (3.8) | 6.1 | 177 | 623 |
| 2010 | (8.5) | 3.0 | 171 | 584 |
| 2011 | (5.1) | 1.4 | 168 | 557 |
| 2012 | (15.9) | 1.1 | 160 | 528 |

Source: USPS.

USPS has reported on several initiatives to reduce costs and increase its revenues to curtail future net losses. To reduce costs, USPS announced a 5-year business plan in February 2012 with the goal of achieving $22.5 billion in annual cost savings by the end of fiscal year 2016. USPS has begun implementing this plan, which includes making changes to its mail processing, retail, and delivery networks and redesigning its workforce in line with changing mail volume. To achieve greater savings, USPS's Board of Governors recently directed postal management to accelerate these efforts. To increase revenue, USPS is pursuing 55 initiatives. While USPS expects shipping and package services to continue to grow, such growth is not expected to fully offset declining mail volume.

USPS needs to reduce its expenses to avoid even greater financial losses, repay its outstanding debt, continue funding its retirement obligations, and increase capital for investment, including replacing its aging vehicle fleet. Also, Congress needs to act to (1) modify USPS's retiree health benefit payments in a fiscally responsible manner; (2) facilitate USPS's ability to align costs with revenues based on changing workload and mail use; and (3) require that any binding arbitration resulting from collective bargaining takes USPS's financial condition into account. No one action in itself will address USPS's financial condition; we have previously recommended a comprehensive package of actions. If Congress does not act soon, USPS could be forced to take more drastic actions that could have disruptive, negative effects on its employees, customers, and the availability of postal services. USPS also reported that it would prioritize payments to employees and suppliers ahead of those to the federal government.