

## Why GAO Did This Study

The Postal Accountability and Enhancement Act of 2006 required GAO to evaluate strategies and options for reforms of the United States Postal Service (USPS). USPS's business model is to fulfill its mission through self-supporting, businesslike operations; however, USPS has experienced increasing difficulties. Due to volume declines, losses, a cash shortage, and rising debt, GAO added USPS's financial condition to its high-risk list in July 2009.

GAO's objectives were to assess (1) the viability of USPS's business model, (2) strategies and options to address challenges to its business model, and (3) actions Congress and USPS need to take to facilitate progress toward financial viability. GAO primarily drew on its past work; other studies; USPS data; interviews with USPS, unions, management associations, Postal Regulatory Commission, and mailing industry officials; and stakeholder input.

## What GAO Recommends

Congress should consider providing financial relief, such as revising USPS retiree health benefit funding and requiring any binding arbitration to take USPS's financial condition into account. At the same time, Congress should consider setting up a panel of experts to develop proposals for broader legislative and operational reform. USPS agreed with the report's key findings but raised concerns about a panel and its timing. Such panels have successfully informed prior difficult restructuring decisions.

View [GAO-10-455](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or [herrp@gao.gov](mailto:herrp@gao.gov).

## U.S. POSTAL SERVICE

### Strategies and Options to Facilitate Progress toward Financial Viability

## What GAO Found

USPS's business model is not viable due to USPS's inability to reduce costs sufficiently in response to continuing mail volume and revenue declines. Mail volume declined 36 billion pieces (17 percent) over the last 3 fiscal years (2007 through 2009) with the recession accelerating shifts to electronic communications and payments. USPS lost nearly \$12 billion over this period, despite achieving billions in cost savings by reducing its career workforce by over 84,000 employees, reducing capital investments, and raising rates. However, USPS had difficulty in eliminating costly excess capacity, and its revenue initiatives have had limited results. USPS also is nearing its \$15 billion borrowing limit with the U.S. Treasury and has unfunded pension and retiree health obligations and other liabilities of about \$90 billion. In 2009, Congress reduced USPS's retiree health benefit payment by \$4 billion to address a looming cash shortfall, but USPS still recorded a loss of \$3.8 billion. Given its financial problems and outlook, USPS cannot support its current level of service and operations. USPS projects that volume will decline by about 27 billion pieces over the next decade, while revenues will stagnate; costs will rise; and, without major changes, cumulative losses could exceed \$238 billion.

This report groups strategies and options that can be taken to address challenges in USPS's business model by better aligning costs with revenues (see table on next page). USPS may be able to improve its financial viability if it takes more aggressive action to reduce costs, particularly compensation and benefit costs that comprise 80 percent of its total costs, as well as increasing revenues within its current authority. However, it is unlikely that such changes would fully resolve USPS's financial problems, unless Congress also takes actions to address constraints and legal restrictions.

Action by Congress and USPS is urgently needed to (1) reach agreement on actions to achieve USPS's financial viability, (2) provide financial relief through deferral of costs by revising USPS retiree health benefit funding while continuing to fund these benefits over time to the extent that USPS's finances permit, and (3) require that any binding arbitration resulting from collective bargaining would take USPS's financial condition into account. Congress may also want assurance that any financial relief it provides is met with aggressive actions by USPS to reduce its costs and increase revenues, and that USPS is making progress toward addressing its financial problems. USPS's new business plan recognizes immediate actions are needed, but USPS has made limited progress on some options, such as closing facilities. If no action is taken, risks of larger USPS losses, rate increases, and taxpayer subsidies will increase. To facilitate progress in these difficult areas, Congress could set up a mechanism, such as one similar to the military Base Realignment and Closure Commission, where independent experts could recommend a package of actions with time frames. Key issues also need to be addressed related to what changes, if any, should be made to delivery or retail services; to allow USPS to provide new products or services in nonpostal areas; and to realign USPS operations, networks, and workforce.

## Highlights of GAO-10-455 (continued)

The table below summarizes selected strategies and options for action by Congress and USPS to address USPS's financial viability, with some options requiring collaboration with unions through collective bargaining.

Challenges	Options for USPS	Options for Congress
<b>Strategy: Reduce compensation and benefits costs</b>		
<p><i>Workforce size:</i></p> <ul style="list-style-type: none"> <li>About 300,000 postal employees are expected to retire through 2020.</li> <li>Collective bargaining agreements include limits on outsourcing.</li> <li>Postal unions are concerned about the loss of jobs paying a middle-class wage and benefits to private-sector jobs with lower wages and no benefit guarantees.</li> </ul>	<p>Reduce the size of the workforce through retirements and outsourcing, where it is cost-effective to do so.</p>	
<p><i>Wages:</i> USPS is required to maintain compensation and benefits comparable to the private sector, and wages account for about one-half of USPS's costs.</p>	<p>Reduce wage costs, for example, through a two-tiered pay system that would pay new hires lower wages and "grandfather" employees in the current system.</p>	<p>Require arbitrators to consider USPS's financial condition when making binding arbitration decisions.</p>
<p><i>Benefits:</i></p> <ul style="list-style-type: none"> <li>USPS benefits account for over 23 percent of USPS's costs. USPS is required to make annual multibillion dollar retiree health benefit payments.</li> <li>Employees eligible for workers' compensation benefits can continue these more generous benefits even when eligible to retire.</li> </ul>	<p>Reduce benefit costs by reducing USPS health and life insurance contribution rates for active employees to levels comparable to those paid by other federal agencies.</p>	<ul style="list-style-type: none"> <li>Defer costs by revising funding requirements for retiree health benefits.</li> <li>Revise workers' compensation laws for employees eligible for retirement.</li> </ul>
<p><i>Workforce mix and work rules:</i> USPS has a high ratio of full-time career employees—about 78 percent—and wants flexibility to hire more part-time employees.</p>	<p>Adjust workforce mix, for example, by using more part-time staff.</p>	
<b>Strategy: Reduce other operations and network costs and improve efficiency</b>		
<ul style="list-style-type: none"> <li>USPS has costly excess capacity and inadequate flexibility to quickly reduce costs in its retail, processing, and delivery networks.</li> <li>Closing facilities has been limited by political, employee, union, and community opposition to potential job losses.</li> <li><i>Retail:</i> Legal restrictions limit its ability to close certain types of post offices.</li> <li><i>Delivery:</i> Delivery is the largest cost segment, labor-intensive, and required by statute to be provided 6 days a week.</li> </ul>	<p><i>Mail processing:</i></p> <ul style="list-style-type: none"> <li>Close unneeded facilities.</li> <li>Relax delivery standards to facilitate closures and consolidations.</li> </ul> <p><i>Retail:</i></p> <ul style="list-style-type: none"> <li>Optimize USPS retail facility network (including hours and locations).</li> <li>Move more retail services to private stores and self-service and close unneeded retail facilities.</li> </ul> <p><i>Delivery:</i> Expand use of more cost-efficient delivery, such as cluster boxes.</p> <p><i>Field structure:</i> Reduce the number of field administrative offices.</p>	<p><i>Mail processing:</i> Support having USPS reduce excess capacity by closing some of its major mail processing facilities.</p> <p><i>Retail:</i> Remove statutory and appropriations language restricting USPS's ability to close some of its 36,500 retail facilities.</p> <p><i>Delivery:</i> Remove appropriations language requiring 6-day delivery.</p>
<b>Strategy: Generate revenues through product and pricing flexibility</b>		
<ul style="list-style-type: none"> <li>The changing use of the mail is projected to continue limiting USPS's ability to generate sufficient revenues.</li> <li>Rate increases for market-dominant products are limited by the inflation-based price cap.</li> <li>Large rate increases may lower USPS revenues in the long run and add to its excess capacity.</li> <li>In fiscal year 2009, USPS lost \$1.7 billion from products with revenues that did not cover costs, mainly Periodicals and Standard Mail Flats (e.g., catalogs).</li> </ul>	<ul style="list-style-type: none"> <li>Revise pricing for market-dominant products, such as First-Class Mail and Standard Mail.</li> <li>Address loss-making products by better aligning prices and costs.</li> <li>Provide volume incentives for certain types of bulk business mail.</li> <li>Develop new postal products and product enhancements.</li> <li>Provide incentives by simplifying complex rules for mail preparation.</li> </ul>	<p>Determine whether preferential pricing required by law for loss-making products should continue.</p>