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Highlights

Highlights of GAO-11-926T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate.

Why GAO Did This Study

By the end of this fiscal year—in less than one month—the U.S. Postal Service (USPS) projects that it will incur a $9 billion loss; reach its $15 billion borrowing limit; not make its $5.5 billion retiree health benefits payment; and thus, become insolvent. USPS recently summarized this situation as the equivalent of facing Chapter 11 bankruptcy. In August 2011, USPS outlined new proposals to address the crisis. USPS seeks legislation to remove itself from the federal health benefit program and sponsor its own program; change pension benefits for new employees; and eliminate the layoff provisions it negotiated with its unions in collective bargaining to accelerate its delivery, processing, and retail network and workforce downsizing. Other USPS proposals, such as moving to 5-day delivery, and pending legislation include additional options for consideration.

This statement discusses (1) updated information on USPS's financial crisis and (2) GAO's review and analysis of proposals to address this crisis, including USPS's new proposals, and options in current legislation. The testimony is based primarily on GAO's review of pending legislation, past and ongoing work related to postal issues, as well as USPS's recent financial results and GAO's discussions with senior postal officials regarding USPS's recent proposals. GAO has reported that action by Congress and USPS is urgently needed to restore USPS's financial viability. GAO provided a draft statement to USPS for comments and did not receive any suggested changes.

View GAO-11-926T. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

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U.S. POSTAL SERVICE

Actions Needed to Stave off Financial Insolvency

What GAO Found

USPS has experienced a cumulative net loss of nearly $20 billion over the last 5 fiscal years, including an $8.5 billion loss in 2010, and a net loss of $5.7 billion in the first 9 months of fiscal year 2011. USPS does not now have—nor does it expect to have—sufficient revenue to cover its costs without legislative changes. To conserve cash, USPS discontinued making its employer's contribution for the defined-benefit portion of the Federal Employees Retirement System (FERS) in June 2011, which it estimated would reduce its costs by about $800 million this fiscal year. USPS has said that mail volume decline has outpaced even its most pessimistic forecasts. USPS urgently needs to restructure its networks and workforce as its financial condition and outlook have reached a crisis level.

A variety of proposals have been made to address USPS's financial crisis. These proposals affect USPS cost savings, postal rates, customer convenience, pension benefits for new employees, employee health benefits, collective bargaining agreements, and delivery and retail services. GAO has identified key issues needing consideration in determining the merits of these proposals. Examples of specific proposals and key considerations include:

- USPS proposal to sponsor its own health benefit plan: USPS expects to save costs by increasing employee contribution rates, fully utilizing Medicare benefits, and administering its plan more efficiently than OPM. However, it is not clear whether USPS can achieve planned cost savings and what the implications are for the federal budget, as USPS has requested about $42 billion in retiree health benefit assets be transferred from Treasury to a USPS Fund.
- USPS proposal to seek reimbursement of its $6.9 billion FERS surplus: Reimbursing the entire surplus all at once is a risk as the current FERS surplus is an estimate that could change as economic or demographic assumptions change. The President's Fiscal Year 2012 Budget Request proposed amortizing the reimbursement over 30 years, which would be consistent with the approach taken for any deficits.
- USPS proposal on workforce optimization: USPS expects to reduce costs by closing about 300 mail processing plants and 12,000 retail facilities; reducing service; and eliminating layoff protections in collective bargaining agreements so that it can reduce its total workforce by about 125,000 career employees by 2015. This proposal accelerates the pace of USPS actions in this area, but it is not clear how USPS will address public resistance to facility closures that could lengthen the timeframes for implementation; employee resistance to making legislative changes to layoff protections; and potential loss of customers if service declines or costs increase.

Little time remains to prevent USPS—the largest federal civilian employer—from insolvency. The stark reality is that USPS's business model is broken. The decline in mail volumes is continuing. The gap between revenues and expenses is growing. USPS cannot continue providing services at current levels without dramatic changes in its cost structure. Difficult choices must be made. Now is the time to decide USPS's future.