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**United States Government Accountability Office
Washington, DC 20548**

October 14, 2011

The Honorable Joseph I. Lieberman
Chairman
The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *U.S. Postal Service: Mail Trends Highlight Need to Fundamentally Change Business Model*

This report formally transmits a summary of our findings regarding changing mail trends and the actions and decisions needed to restructure USPS's business model (see attachment). Our report is in response to your September 21, 2011 request letter and it contains information that was used to brief your staff on October 7, 2011.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Postmaster General, other congressional committees, and interested parties. In addition, this report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staffs have any questions regarding this report, please contact me at (202) 512-2834 or herrp@gao.gov. Key contributors to this report were Teresa Anderson (Assistant Director), Tida Barakat, Erin Cohen, Bess Eisenstadt, Colin Fallon, Aaron Kaminsky, and Crystal Wesco.

Phillip R. Herr
Director, Physical Infrastructure Issues

Attachment

Highlights of [GAO-12-159SP](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

By the end of fiscal year 2011, with a projected net loss of about \$10 billion, the U.S. Postal Service (USPS) was expected to become insolvent. To mitigate this, Congress temporarily deferred USPS's required \$5.5 billion retiree health benefit payment. Over the previous 4 years, USPS experienced a cumulative net loss of just over \$20 billion. USPS expects its revenue to decline further as First-Class Mail is projected to decline nearly 7 percent annually through 2020. Consequently, decisions need to be made to determine how USPS should be restructured to put it on a path to financial viability.

GAO was asked to summarize (1) long-term trends related to the demand for and use of mail, and (2) options for restructuring USPS's business model to adjust to changing mail trends. This summary is based on GAO's past work, including [GAO-11-278](#) (High-Risk Series: An Update) and [GAO-10-455](#) (USPS: Strategies and Options to Facilitate Progress toward Financial Viability), both of which found that USPS urgently needs to restructure its networks and workforce to achieve and sustain financial viability. In addition, GAO also used data and related studies from USPS. GAO performed this work from September 2011 to October 2011 in accordance with generally accepted government auditing standards. GAO provided a draft of this report to USPS for comment and incorporated technical comments provided by USPS as appropriate.

View [GAO-12-159SP](#) or key components. For more information, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

U.S. POSTAL SERVICE

Mail Trends Highlight Need to Fundamentally Change Business Model

What GAO Found

Long-term trends—highlighted in the data below—strongly suggest that the use of mail will continue to diminish as online communication and e-commerce expand. By 2020, USPS projects mail volume will decline to levels not seen since the 1980s: Total mail volume is projected to decrease by 25 percent, First-Class Mail is expected to decrease by 50 percent, and Standard Mail volume is projected to remain flat. While dire, USPS's projections could prove optimistic if communication continues to move to digital technologies as quickly as in the recent past. For the first time, in 2010, fewer than 50 percent of all bills were paid by mail. These trends underscore the need for USPS's business model to undergo fundamental changes to reduce personnel and network-related costs.

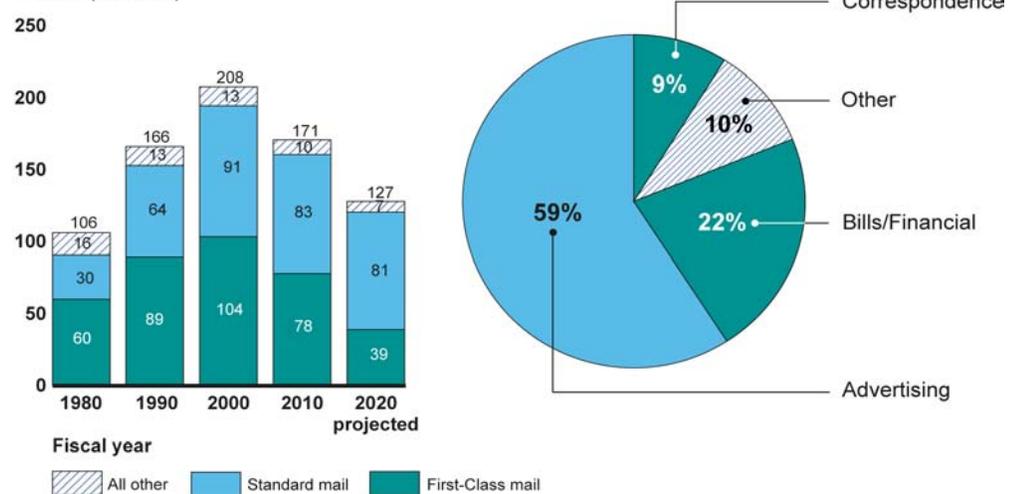
Table 1: Key Statistics on USPS's Operations from Fiscal Years 1980 through 2020

	1980	1990	2000	2010	2020 (projected)
Total mail volume (billions of pieces)	106	166	208	171	127
Total revenue (dollars in billions)	\$19	\$40	\$65	\$67	\$59
Total employees	667,000	843,000	901,000	672,000	425,000
Total facilities	39,486	40,067	38,060	36,750	20,200

Source: USPS.

As shown in the chart, almost 60 percent of mail received by households in 2010 was advertising, while bills and financial statements comprised 22 percent.

USPS Mail Volume and Mix
Volume (in billions)



Source: GAO analysis of USPS data.

Restructuring USPS's business model to adapt to decreased mail use could follow one of three primary models: a government-subsidized federal agency, the current structure with additional flexibility, or a private-sector business. See table 2 for key actions and decisions associated with each model.

Table 2: Actions and Decisions Needed to Restructure USPS’s Business Model

	Government-subsidized federal agency	Current structure with additional flexibility	Private-sector business(es)
Universal service obligation	Determine whether or not the universal service obligation should be revised to reflect changing mail use, affordability, access to services, and the level of subsidy needed	Determine whether or not the universal service obligation should be revised to reflect changing mail use, affordability, and access to services	Determine how to ensure, and in what form, universal service would be provided
Role in providing delivery and retail services	Determine the level of federal subsidy needed to provide agreed-on delivery and retail services	Give USPS greater flexibility to partner and compete with private firms in providing delivery and retail services	Allow private firms to provide delivery and retail services while preserving the universal service obligation
Governance and regulation	Revise governance and regulatory structures to be consistent with administration and congressional oversight, and related changes	Revise governance, regulatory oversight, and reporting requirements to be consistent with other changes made, such as pricing flexibility and network changes	Revise governance, regulatory oversight structures, and reporting requirements to reflect those applicable to industries, subject to universal service provisions
Monopolies	Continue the letter and mailbox monopolies	Determine whether the letter or mailbox monopoly should be changed	Phase out or eliminate the letter and mailbox monopolies
Pricing and products	Determine whether to retain price caps and subsidies for certain mail classes, and how much pricing and product flexibility USPS should have to develop new products and services	Determine whether to retain price caps and subsidies for certain mail classes, product flexibility, and ensure products cover their costs	Provide flexibility to develop new products and base prices on market conditions; eliminate price caps and subsidies
Borrowing authority	Determine how the current \$15 billion debt to the U.S. Treasury will be repaid and whether the \$15 billion debt limit should be changed	Determine how the current \$15 billion debt to the U.S. Treasury will be repaid and whether the \$15 billion debt limit should be changed	Eliminate borrowing from the U.S. Treasury, repay debt to the U.S. Treasury, and require capital to be raised in private equity markets
Financial obligations	Allow USPS to fund its obligations like other federal agencies and eliminate prefunding for retiree health benefit obligations	Restructure funding for retiree health benefit obligations in a fiscally responsible manner	Establish new pension, retiree health, and workers’ compensation programs and determine obligations, in accordance with applicable laws and regulations
Networks and workforce	Optimize networks and workforce in accordance with service levels and subsidy	Optimize networks and workforce to match costs with declining volume and revenue	Optimize networks and workforce in accordance with service obligations
Compensation and benefits	Revise compensation and benefit requirements to reflect those applicable to other federal employees	Revise compensation and benefit requirements to reflect either private-or public-sector standards, but not a hybrid of both	Revise compensation and benefit structure to reflect private-sector practices
Labor-related requirements	Revise requirements to reflect those used by federal agencies	Require binding arbitration for labor contracts to consider USPS’s financial condition	Revise requirements to reflect those applicable to private firms

Source: Analysis of prior GAO work and USPS documents.

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