

GAO Highlights

Highlights of [GAO-14-398T](#), a testimony before the Subcommittee on Federal Workforce, U.S. Postal Service and the Census, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

USPS continues to be in a serious financial crisis, with insufficient revenue to cover its expenses and financial obligations as the volume of USPS's most profitable product, First-Class Mail, continues to decline. At the end of fiscal year 2013, USPS had about \$100 billion in unfunded liabilities: \$85 billion in unfunded liabilities for benefits, including retiree-health, pension, and workers' compensation liabilities, and \$15 billion in outstanding debt to the U.S. Treasury—the statutory limit. These unfunded liabilities are a large and growing financial burden, increasing from 83 percent of USPS revenues in fiscal year 2007 to 148 percent of revenues in fiscal year 2013. Unfunded benefit liabilities represent estimated future benefit payments to current and retired employees for which USPS has not set aside sufficient money to pay. This testimony discusses (1) the extent to which USPS's benefit liabilities are unfunded and (2) the potential impacts of USPS's unfunded benefit liabilities absent action by Congress to address them and key policy issues for consideration. This testimony is based primarily on GAO's work over the past 4 years and updated USPS financial information for fiscal year 2013.

GAO has previously reported that a comprehensive package of legislative actions is needed so that USPS can achieve financial viability and assure adequate benefits funding for more than 1 million postal employees and retirees. GAO has also previously identified various approaches Congress could consider to restructure the funding of USPS retiree health benefits and pensions.

View [GAO-14-398T](#). For more information, contact Frank Todisco at (202) 512-2834 or todiscof@gao.gov.

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U.S. POSTAL SERVICE

Action Needed to Address Unfunded Benefit Liabilities

What GAO Found

The extent to which the U.S. Postal Service (USPS) has funded its liabilities varies due to different statutory funding requirements specific to each benefit program and USPS's financial means to make payments. For example, USPS has been required to prefund its pension benefit liability over decades, and as shown in the table below, its pension liability is 94 percent funded. Prefunding USPS's retiree health benefits began in 2007, and the liability is about half funded. In contrast, USPS funds its workers' compensation benefits on a pay-as-you-go basis, and the entire liability is unfunded. The largest unfunded liabilities, in order of decreasing size, are \$48 billion for retiree health, \$19 billion for pensions, and \$17 billion for workers' compensation. The rules for calculating the amount that USPS must fund each year differ among the pension and retiree health programs, including variations in amortization periods, recognition of any surpluses, use of actuarially determined versus fixed payments, and actuarial assumptions.

Funding Levels for Liabilities in Selected USPS Benefit Programs at the End of Fiscal Year 2013

(Dollars in Billions)			
	Pension	Retiree health	Workers' compensation
Liability	\$306.2	\$95.6	\$17.2
Fund balance	286.9	47.3	0
Percentage funded	94	49	0
Unfunded liability	19.3	48.3	17.2

Source: USPS.

GAO has previously reported that without congressional action to address USPS's benefit funding issues and better align its costs and revenues, USPS faces continuing low liquidity levels, insufficient revenues to make annual prefunding payments, and increasing liabilities. Deferring funding could increase costs for future postal ratepayers and increase the possibility that USPS may not be able to pay for these costs. GAO has previously identified the following key considerations related to USPS's funding of its benefits liabilities:

- Reasons for prefunding include fairly allocating costs between current and future ratepayers, protecting USPS's future viability, providing greater benefit security to employees and retirees, and protecting potential third parties.
- Prefunding decisions involve trade-offs between USPS's current financial condition and its long-term prospects.
- Congress needs to modify USPS's retiree health prefunding payments in a fiscally responsible manner, and USPS should prefund any unfunded retiree-health benefits liability to the maximum extent that its finances permit.
- Lowering the retiree health funding target from 100 to 80 percent would have the effect of carrying a permanent unfunded liability.
- USPS liabilities are estimated using assumptions for the federal workforce as a whole, rather than USPS-specific assumptions. GAO supports the use of the most accurate actuarial assumptions available, and if USPS-specific assumptions are used, that they be recommended by an independent body.