United States Government Accountability Office

U.S. POSTAL SERVICE

Continuing Financial Challenges and the Need for Postal Reform

What GAO Found

The U.S. Postal Service’s (USPS) financial condition continues to deteriorate as a result of trends including:

- Declining mail volume: First-Class Mail—USPS’s most profitable product—continues to decline in volume as communications and payments migrate to electronic alternatives. USPS expects this decline to continue for the foreseeable future.

- Growing expenses: Key USPS expenses continue to grow, such as salary increases and work hours due in part to growth in shipping and packages, which are more labor-intensive. Compensation and benefits comprise close to 80 percent of USPS’s expenses.

USPS’s financial condition makes it unlikely it will be able to fully make its required retiree health and pension payments in the near future. In fiscal year 2015, while USPS was required to make $12.6 billion in retiree health and pension payments, it made $6.7 billion in payments mainly due to not making a required retiree health payment of $5.7 billion. USPS’s required payments will be restructured in fiscal year 2017, with estimated payments totaling $11.3 billion—$4.6 billion more than what USPS paid in fiscal year 2015. USPS’s ability to make these required payments will be further challenged due to:

- Expiration of a temporary rate surcharge: This surcharge on most postal rates effective January 2014, which had generated $4.6 billion in additional revenues, expired April 2016.

- No new major cost savings initiatives planned.

Large unfunded liabilities for postal retiree health and pension benefits—which were $78.9 billion at the end of fiscal year 2015—may ultimately place taxpayers, USPS employees, retirees, and their beneficiaries, and USPS itself at risk. As we have previously reported, funded benefits protect the future viability of an enterprise such as USPS by not saddling it with bills after employees have retired. Further, since USPS retirees participate in the same health and pension benefit programs as other federal retirees, if USPS ultimately does not adequately fund these benefits, and if Congress wants these benefits to be maintained at current levels, funding from the U.S. Treasury, and hence the taxpayer, would be needed to continue the benefit levels. Alternatively, unfunded benefits could lead to pressure for reductions in benefits or in pay.

Congress faces difficult choices and tradeoffs to address USPS’s financial challenges. The status quo is not sustainable. Considerations for Congress include the (1) level of postal services provided to the public and the affordability of those services, (2) compensation and benefits for USPS employees and retirees in an environment of revenue pressures, and (3) tension between USPS’s dual roles as an independent establishment of the executive branch required to provide universal delivery service and as a self-financing entity operating in a business like manner.