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U.S. POSTAL SERVICE

Continuing Financial Challenges and the Need for Postal Reform

Statement of Lori Rectanus, Director, Physical Infrastructure Issues

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GAO Highlights

Highlights of GAO-16-651T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

U.S. POSTAL SERVICE

Continuing Financial Challenges and the Need for Postal Reform

Why GAO Did This Study

USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2015 to 155 million delivery points. However, USPS's mission of providing prompt, reliable and efficient universal services to the public at risk due to its poor financial condition. USPS's net loss was $5.1 billion in fiscal year 2015, its ninth consecutive year of net losses. At the end of fiscal year 2015, USPS had $125 billion in unfunded liabilities, mostly for retiree health and pensions, and debt—an amount equal to 182 percent of USPS's revenues.

In July 2009, GAO added USPS's financial condition to its list of high-risk areas needing attention by Congress and the executive branch. USPS's financial condition remains on GAO's high-risk list. In previous reports, GAO has included strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. GAO has also previously reported that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

This testimony discusses (1) factors affecting USPS's deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) choices Congress faces to address USPS's financial challenges. This testimony is based primarily on GAO's work over the past 5 years that examined USPS's financial condition—including its liabilities—and updated USPS financial information for fiscal year 2015 and 2016.

View GAO-16-651T. For more information, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

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.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee:

I appreciate the opportunity to be here today to discuss the varied challenges facing the U.S. Postal Service (USPS) and options for the Congress to address USPS's financial challenges. USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2015 to about 155 million delivery points, and with more than 620,000 employees. USPS, however, faces a serious financial situation and does not have sufficient revenues to cover its expenses, putting its mission of providing prompt, reliable, and efficient universal services to the public at risk.[1] USPS continues to incur deficits that are unsustainable. Moreover, at the end of fiscal year 2015, USPS had about $125 billion in unfunded liabilities and debt, most of which were for retiree health and pension benefits. USPS continued to have $15 billion in outstanding debt—the statutory limit. These unfunded liabilities and debt are a large and growing financial burden, increasing from 99 percent of USPS revenues in fiscal year 2007 to 182 percent of revenues in fiscal year 2015. Unfunded benefit liabilities are the estimated amount USPS has not sufficiently set aside to cover the benefits earned by its current and retired employees that are attributable to service already rendered. USPS also recorded a net loss of $5.1 billion in fiscal year 2015—its ninth consecutive year of net losses. In July 2009, we added USPS's financial condition to our list of high-risk areas needing attention by Congress and the executive branch; USPS's financial condition continues to deteriorate and remains on our high-risk list.[2] As our high-risk report stated, we have previously included strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. We maintain that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

This testimony discusses (1) factors affecting USPS's continuing deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) choices Congress faces to address USPS's financial challenges. This testimony is based primarily

[1] 39 U.S.C. § 101(a).

[2] GAO, *High-Risk Services: An Update*, GAO-15-290 (Washington, D.C.: Feb. 2015).

on reports and testimonies we issued in the past 5 years and that examined USPS's financial condition, including its liabilities.[3] The reports and testimonies cited in this statement contain detailed information on the methods used to conduct our work. For this testimony, we updated USPS financial information with results from fiscal year 2015, which ended September 30, 2015. In addition, we used testimony and reports prepared by USPS[4] and the Postal Regulatory Commission in 2016.[5] We also used estimates, prepared by USPS and the Congressional Budget Office, of retiree health and pension payments that USPS would be legally required to make in fiscal year 2017. We found these estimates to be sufficiently reliable for providing a general description and estimate for the large, pending payments USPS faces. The work upon which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[3]GAO, *U.S. Postal Service: Financial Challenges Continue,* GAO-16-268T (Washington, D.C.: Jan. 21, 2016); *U.S. Postal Service: Action Needed to Address Unfunded Benefit Liabilities,* GAO-14-398T (Washington, D.C.: Mar. 13, 2014); *U.S. Postal Service: Health and Pension Benefits Proposals Involve Trade-offs,* GAO-13-872T (Washington, D.C.: Sept. 26, 2013); *U.S. Postal Service: Proposed Health Plan Could Improve Financial Condition, but Impact on Medicare and Other Issues Should be Weighed before Approval*, GAO-13-658 (Washington, D.C.: July 18, 2013); *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Washington, D.C.: Dec. 4, 2012); *Federal Employees' Compensation Act: Analysis of Proposed Program Changes*, GAO-13-108 (Washington, D.C.: Oct. 26, 2012); *U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government*, GAO-12-146 (Washington, D.C.: Oct. 13, 2011); and *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

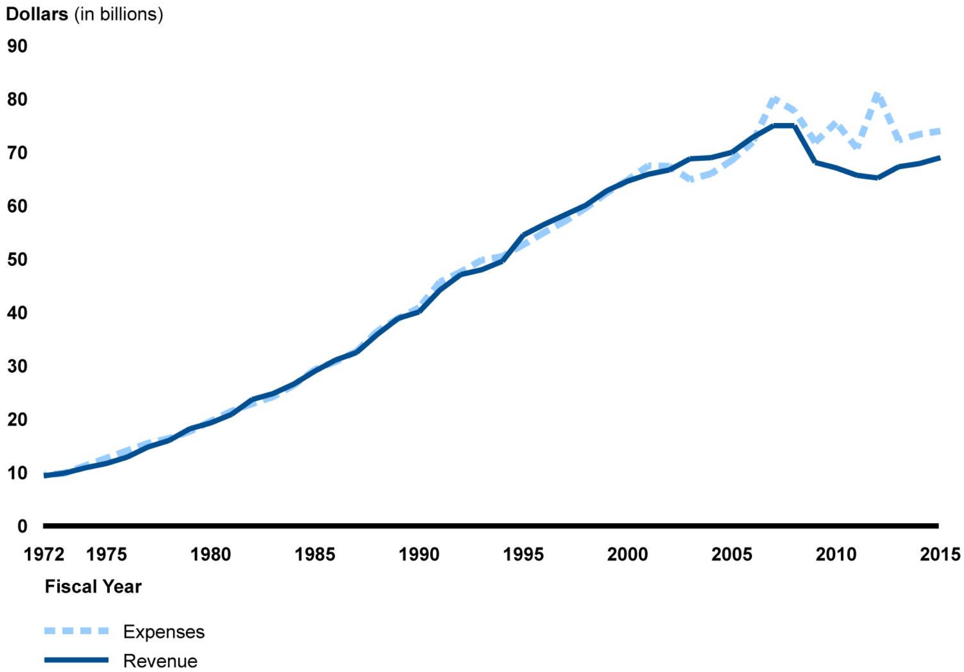
[4]USPS, *Statement of Megan J. Brennan, Postmaster General and Chief Executive Officer, United States Postal Service, Before the Senate Homeland Security and Governmental Affairs Committee* (Washington, D.C., Jan. 21, 2016).

[5]PRC, *Annual Compliance Determination Report: Fiscal Year 2015* (Washington, D.C.: Mar. 28, 2016).

Declining Mail Volume and Growing Expenses Contribute to USPS's Deteriorating Financial Condition

After about 30 years of relatively steady growth, USPS's expenses began consistently exceeding revenues in fiscal year 2007 (see fig. 1). As a result, USPS has lost a total of $56.8 billion since fiscal year 2007.

Figure 1: USPS Revenue and Expenses, Fiscal Years 1972-2015



Source: GAO-16-268T. | GAO-16-651T

Data Table for Figure 1: USPS Revenue and Expenses, Fiscal Years 1972-2015

Fiscal Year	Total Revenue ($ billions)	Total Expenses ($ billions)
1972	9.4	9.5
1973	9.9	9.9
1974	10.9	11.3
1975	11.7	12.7
1976	12.9	14.1
1977	14.8	15.5
1978	16	16.4
1979	18.2	17.7
1980	19.3	19.6
1981	20.9	21.5
1982	23.7	22.9
1983	24.8	24.2
1984	26.6	26.4

Fiscal Year	Total Revenue ($ billions)	Total Expenses ($ billions)
1985	29	29.3
1986	31.1	30.8
1987	32.5	32.7
1988	35.9	36.5
1989	38.9	38.9
1990	40.1	40.9
1991	44.2	45.7
1992	47.1	47.6
1993	48	49.8
1994	49.6	50.5
1995	54.5	52.7
1996	56.5	55
1997	58.3	57.1
1998	60.1	59.6
1999	62.8	62.4
2000	64.6	64.8
2001	65.9	67.5
2002	66.7	67.4
2003	68.8	64.9
2004	69	66
2005	70	68.5
2006	72.8	71.9
2007	75	80.1
2008	75	77.8
2009	68.1	71.9
2010	67.1	75.6
2011	65.7	70.8
2012	65.2	81.2
2013	67.3	72.3
2014	67.9	73.4
2015	69	74

The continued deterioration in USPS's financial condition is due primarily to two factors.

1. *Declining mail volumes:* USPS continues to face decreases in mail volume, its primary revenue source, as online communication and e-commerce expand. While remaining USPS's most profitable product, First-Class Mail volume in particular has significantly

declined in recent years. For example, while total mail volume declined 27 percent from its peak in fiscal year 2006 (including a 1 percent decline in fiscal year 2015), First-Class Mail volume has declined to a greater extent—40 percent since its peak in fiscal year 2001 (with a 2 percent decline in fiscal year 2015).

USPS reported that the most significant factor contributing to the decline in First-Class Mail volume is the continued migration toward electronic communication and transaction alternatives—a migration USPS expects to continue for the foreseeable future. USPS added that the decline in First-Class Mail was exacerbated by the Great Recession that the National Bureau of Economic Research reported as lasting from December 2007 to June 2009. In the long run, USPS faces the risk of increasing diversion of mail to electronic alternatives and the possibility of future economic downturns that could negatively affect mail volumes. USPS has reported that although increased shipping and package volume has offset some of the declines in mail volume, this volume has a smaller profit margin than First-Class Mail.[6] USPS will need to be efficient in its processing and delivery of packages to capitalize on growth in that market.

2. *Growing Expenses:* While mail volume has declined, USPS's operating expenses have been rising. USPS reported that its key operating expenses grew in fiscal year 2015—notably salary increases for unionized employees, as well as additional work hours, in part due to a 14.1 percent growth in shipping and packages, which are more labor intensive to process. Despite efficiency initiatives such as consolidation of 36 mail-processing facilities in 2015,[7] total employee work hours increased, and the size of USPS's career workforce increased slightly in fiscal year 2015—the first increase in the size of the career workforce since fiscal year 1999. Compensation and benefits comprise close to 80 percent of total USPS expenses. Thus, expenses will further grow

[6]USPS said it must earn about $2.50 in Shipping and Packages revenue to replace the profitability lost from each $1 of First-Class Mail revenue because the costs of transporting and delivering packages are significantly higher than letters.

[7]Of the 36 mail-processing facilities consolidated in fiscal year 2015, USPS fully consolidated 15 of these facilities and partially consolidated 21 facilities.

if increases in salaries and work hours continue. According to USPS, increases in compensation and benefits costs (primarily from increased wages) will add $1.1 billion in costs in fiscal year 2016.

As previously discussed, USPS's unfunded liabilities and debt have become a large and growing financial burden, increasing from 99 percent of USPS revenues at the end of fiscal year 2007 to 182 percent of revenues at the end of fiscal year 2015 (see table 2 in app. I for more detail). At the end of fiscal year 2015, USPS's $125 billion in unfunded liabilities and outstanding debt represented a $7.4 billion increase from the previous year.

In addition, reduced mail volumes and growing expenses have contributed to USPS's inability to fully meet its requirement to prefund retiree health benefits. The Postal Accountability and Enhancement Act (PAEA) established the Postal Service Retiree Health Benefits Fund and required USPS to begin prefunding health benefits for its current and future postal retirees, with annual payments of $5.4 billion to $5.8 billion from fiscal years 2007 through 2016, followed by actuarially determined prefunding payments beginning in 2017 and every year thereafter.[8] As of the end of fiscal year 2015, USPS's liability for retiree health benefits was about $105.2 billion and the Postal Service Retiree Health Benefits Fund balance was $50.3 billion, with a resulting unfunded liability of $54.8 billion. USPS has missed a total of $28.1 billion in required prefunding payments, which represent about half of USPS's total losses since fiscal year 2007.[9] Even without the annual prefunding requirement, however, USPS would have still lost $10.8 billion during this time period. USPS has

[8]Pub. L. 109-435, § 803, 120 Stat. 3198 (Dec. 20, 2006), codified at 5 U.S.C. § 8909a. Under the prefunding mechanism established by PAEA, as implemented by the Office of Personnel Management (OPM), USPS payments to OPM would be projected to fund the liability over a period in excess of 50 years, from fiscal years 2007 through 2056 and beyond (with rolling 15-year amortization periods after 2041). PAEA established "fixed" prepayment amounts—meaning that the amounts were set by statute and did not vary with actuarial measurements of the cost of the benefits—in the first 10 years, from fiscal years 2007 through 2016, with actuarially determined payments thereafter. However, the payments required by PAEA were significantly "frontloaded," with the fixed payment amounts in the first 10 years exceeding what actuarially determined amounts would have been using a 50-year amortization schedule. For more detail, see GAO-13-112.

[9]For financial reporting purposes, missed prefunding payments are treated as USPS expenses and reported as a liability on its balance sheet.

stated that it expects to miss its required prefunding payment of $5.8 billion due at the end of fiscal year 2016.

USPS Will Remain Unlikely to Fully Make Required Retiree Health and Pension Payments

USPS will remain unlikely to fully make its required retiree health and pension payments in the near future. Beginning in fiscal year 2017, USPS's payments will be restructured as it will no longer be required to make fixed prefunding payments, but will be required to start making annual payments based on actuarial determinations of the following component costs:

- a 40-year amortization schedule to address the unfunded liabilities for postal retiree health benefits,
- the "normal costs" of retiree health benefits for current employees,[10] and
- a 27-year amortization schedule to address the unfunded liabilities for postal pension benefits under the Civil Service Retirement System (CSRS) (see table 2 in app. I for more detail).

These payments are in addition to annual payments USPS is already required to make to finance its pension benefits under the Federal Employees Retirement System (FERS), which consists of a 30-year amortization schedule to address any unfunded liabilities, and the normal costs of FERS benefits for current employees. USPS will find it very difficult to make all of these required payments given its financial condition and outlook. As table 1 below shows, in fiscal year 2017, USPS will be required to make an estimated total of $11.3 billion in payments for retiree health and pension benefits under CSRS and FERS—about $4.6 billion more than what USPS paid in fiscal year 2015 for these benefit programs.

[10] The "normal cost" is the annual expected growth in liability attributable to an additional year of employees' service.

Table 1: U.S. Postal Service (USPS) Payments for Retiree Health and Pensions, Fiscal Years 2015 and 2017 (Dollars in Billions)

	USPS payment	Fiscal year 2015 - Required	Fiscal year 2015 - paid	Fiscal year 2017 - required (estimate)
Retiree health benefits	Health premiums	$3.1	$3.1	Not applicable
	Fixed prefunding	$5.7	$0	Not applicable
	Normal cost	Not applicable	Not applicable	$2.5
	Amortization	Not applicable	Not applicable	$3.5
	Pension benefits	**Fiscal year 2015 - Required**	**Fiscal year 2015 - paid**	**Fiscal year 2017 - required (estimate)**
Civil Service Retirement System (CSRS)	Amortization	Not applicable	Not applicable	$1.6
Federal Employees Retirement System (FERS)	Normal cost	$3.6	$3.6	$3.5
	Amortization	$0.2	$0	$0.2
Total	Not applicable	**$12.6**	**$6.7**	**$11.3**

Source: The U.S. Postal Service (USPS) and the Congressional Budget Office (CBO). | GAO-16-268T | GAO-16-651T

Note: USPS's required payments in fiscal year 2016 include a statutory required payment of $5.8 billion to prefund retiree health benefits. Other USPS required payments for fiscal year 2016 are expected to be similar to those required in fiscal year 2015 and are therefore not shown above. Fiscal year 2015 required and paid data are from USPS. To develop USPS's required estimated payments that begin in fiscal year 2017, we used publicly reported data to the extent possible, which were drawn from a July 2014 CBO report that estimated USPS's required retiree health and CSRS payments under current law. The July 2014 report, however, did not include an estimate for USPS's fiscal year 2017 FERS payment. We subsequently requested and obtained this estimate from USPS. In addition, USPS has not made its fiscal year 2015 FERS amortization payment of $241 million and has a pending request that OPM reconsider this amount.

In addition to declining mail volumes and increased expenses, USPS's ability to make its required payments for these retirement programs will be further challenged due to:

- *Expiration of a temporary rate surcharge:* USPS has reported that additional revenue generated by a 4.3 percent "exigent" surcharge[11]

[11]In December 2013, the Postal Regulatory Commission (PRC) approved USPS's request for an "exigent surcharge" which allowed USPS to raise postal rates for most mail above the statutory price cap that is generally limited to the rate of inflation, except under extraordinary or exceptional circumstances that necessitate a larger rate increase. In July 2015, PRC ruled that USPS could continue the surcharge until it collects $4.6 billion in incremental revenue, which represents USPS's approximate loss due to the suppression of mail experienced during the Great Recession.

that began in January 2014 generated $4.6 billion in additional revenue, including $1.1 billion in fiscal year 2016, $2.1 billion in fiscal year 2015, and $1.4 billion in fiscal year 2014. However, this surcharge was discontinued April 10, 2016, resulting in the reduction of many postal rates, including the rate for a First-Class Mail stamp that was reduced from 49 to 47 cents. USPS has reported that the expiration of the exigent surcharge will have an adverse impact on its future operating revenue and liquidity, and that its actions to increase efficiency, reduce costs, and generate additional revenue may be insufficient to meet all of its financial obligations or to carry out its strategy.

- *No new major cost-savings initiatives planned.* USPS has no current plans to initiate new major initiatives to achieve cost savings in its operations. USPS has reported that it will continue to implement operational initiatives to contain costs, but such actions will not be enough to stave off future losses and stabilize its finances.

USPS has reported that without structural and other changes to its business model, absent legislative change,[12] it expects continuing losses and liquidity challenges for the foreseeable future. According to USPS, it has maintained adequate liquidity in order to continue achieving its primary mission of providing universal postal services only by not making required payments to prefund retiree health benefits, and by deferring needed capital investments.

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.[13] 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

[12] For example, USPS has proposed requiring postal retirees to participate in Medicare when they become eligible. This proposal would reduce USPS's expenses—and unfunded liability—for retiree health benefits because Medicare would become the primary insurer for all postal retirees.

[13] GAO-13-112.

levels, funding from the U.S. Treasury, and hence the taxpayer, would be needed to continue the benefit levels. According to USPS, "Absent fundamental legislative reform, we face the prospect of having to continue to default on these prefunding payments [for retiree health benefits] in order to continue paying our employees and suppliers and to provide postal services to the American public. This increases the risk that taxpayers may ultimately be called on to fund these benefits."[14] Alternatively, unfunded benefits could lead to pressure for reductions in benefits or in pay. Thus, the timely funding of benefits protects USPS employees, retirees, beneficiaries, taxpayers, and the USPS enterprise.

Congress Faces Difficult Choices to Address USPS's Financial Condition

USPS's financial situation leaves Congress with difficult choices and trade-offs to achieve the broad-based restructuring that will be necessary for USPS to become financially sustainable. USPS's ability to make its required retiree health and pension payments requires a decrease in expenses or increase in revenues, or both. As we have previously reported, USPS's actions alone under its existing authority will be insufficient to achieve sustainable financial viability; comprehensive legislation will be needed.[15] Congressional decisions about how to address the following issues will shape USPS's future role, services, operations, networks, and ability to adapt to changes in mail volume. In making these decisions, Congress could consider, among other things, the following factors.

- *The level of postal services and the affordability of those services:* USPS's growing financial difficulties combined with vast changes in how people communicate provide Congress with an opportunity to consider what postal services will be needed in the 21st century. Specifically, Congress could consider what postal services should be provided on a universal basis to meet customer needs and how these services should be provided. Congress also could consider trade-offs in reducing the level of postal services, such as providing USPS with the authority to reduce the frequency of letter mail delivery, to enable

[14] USPS, *Statement of Megan J. Brennan, Postmaster General and Chief Executive Officer, United States Postal Service, Before the Senate Homeland Security and Governmental Affairs Committee* (Washington, D.C., Jan. 21, 2016).

[15] GAO-15-290.

USPS to reduce its expenses. A key factor in any consideration to reduce postal services would include potential effects on postal customers, mail volumes, and employees. In particular, Congress could consider the quality of postal service—such as the frequency and speed of mail delivery and the accessibility and scope of retail postal services—in considering any service reduction. In January 2015, for example, USPS revised its standards for on-time mail delivery by increasing the number of days for some mail to be delivered and still be considered on time. However, under the revised delivery standards, the percentage of mail delivered on time declined for many types of mail, such as First-Class Mail and Periodicals. USPS attributed declines in delivery performance to operational changes it implemented in January 2015 coupled with adverse winter weather. In its March 2016 Annual Compliance Determination report, PRC expressed strong concern with declines in delivery performance, particularly for single-piece First-Class Mail letters and postcards with a 3-5 day delivery standard, and directed USPS to improve delivery performance for First-Class Mail letters and postcards in fiscal year 2016.[16]

- *Compensation and benefits in an environment of revenue pressures:* Key compensation and benefits costs have increased and continue to increase for USPS employees, while demand for USPS's main revenue source, mail and First-Class Mail in particular, has declined and continues to decline. Further, the exigent rate increase mentioned above expired on April 10, 2016. To put USPS's situation into context, many private sector companies (such as automobile companies, airlines, mail preparation and printing companies, and major newspapers) took far-reaching measures to cut costs (such as reducing or stabilizing workforce, salaries, and benefits) when the demand of their central product and services declined. However, although USPS also has taken a range of cost-cutting measures, USPS has stated that its strategies to increase efficiency and reduce costs by adjusting its network, infrastructure, and workforce and to retain and grow revenue are currently constrained by statutory, contractual, regulatory, and political restrictions. For example, USPS does not administer its employees' pension, health, and workers' compensation benefits programs, and postal rates are regulated by

[16]PRC, *Annual Compliance Determination Report: Fiscal Year 2015* (Washington, D.C.: Mar. 28, 2016).

the Postal Regulatory Commission, with rate increases for most mail limited by an inflation-based price cap. Most USPS employees are covered by collective bargaining agreements with four major labor unions which have established salary increases, cost-of-living adjustments, and the share of health insurance premiums paid by employees and USPS. When USPS and its unions are unable to agree, the parties are required to enter into binding arbitration by a third-party panel. There is no statutory requirement for USPS's financial condition to be considered in arbitration. Considering USPS's poor and deteriorating financial condition and the competitive environment, we continue to believe—as we reported in 2010[17]—that Congress should consider revising the statutory framework for collective bargaining to ensure that USPS's financial condition be considered in binding arbitration.

- *USPS's dual role of providing affordable universal service while remaining self-financing:* As an independent establishment of the executive branch, USPS has long been expected to provide affordable, quality, and universal delivery service to all parts of the country while remaining self-financing. USPS and other stakeholders have considered a range of different business models to address USPS's financial difficulties. For example, USPS's 2002 Transformation Plan included a range of alternatives from a publicly-supported model to a business model with a corporate structure supported by shareholders. An alternative business model, if any, would need to address the level of any costs that would be transferred from USPS, which is financed by postal ratepayers, to the federal government, which is funded by taxpayers. In addition, if Congress requires eligible postal retirees to participate in Medicare, as USPS has previously proposed, it should consider the tradeoffs for the federal budget deficit and Medicare's financial condition, as well as the implications for affected employees.[18]

Finally, a fully functioning USPS Board of Governors is needed to support USPS's ability to carry out its critical responsibilities. USPS's 11-seat Board of Governors is required by law to have a quorum of six members in order to take certain actions. Because two Governors left the Board in December 2015 due to term limits, the Board currently consists of only

[17]GAO-10-455.

[18]GAO-13-658.

one Governor (who will not be able to serve past December 2016), the Postmaster General, and the Deputy Postmaster General. Certain powers are reserved to the Governors. USPS has reported that although the inability of the Board to constitute a quorum does not inhibit or affect the authority of the Governors in office from exercising those powers, it is not apparent how those powers could be exercised if there were no Governors. According to USPS, the critical responsibilities reserved to the Governors are setting postal prices, approving new products, and appointing or removing the Postmaster General and the Deputy Postmaster General. USPS has stated that in the event no Governors are in place, these critical duties may not be able to be executed, potentially leaving USPS without the ability to adjust its prices as needed, introduce new products, or appoint or replace its two most senior executive officers.

In conclusion, USPS management, unions, the public, community leaders, and Members of Congress need to take a hard look at what level of postal services residents and businesses need and can afford. The status quo is not sustainable.

Chairman Chaffetz, Ranking Member Cummings, and Members of the Committee, this concludes my prepared statement. I would be pleased to answer any questions that you may have at this time.

GAO Contact and Key Acknowledgments

For further information about this statement, please contact Lori Rectanus, Director, Physical Infrastructure Issues, at (202) 512-2834 or rectanusl@gao.gov. Contact points for our Congressional Relations and Public Affairs offices may be found on the last page of this statement. In addition to the contact named above, Frank Todisco, Chief Actuary, FSA, MAAA, EA, Applied Research and Methods; Samer Abbas; Kenneth John; Malika Rice; and Crystal Wesco made important contributions to this statement. Mr. Todisco meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions contained in this testimony.

Appendix I: U.S. Postal Service (USPS) Financial Obligations and Related Information

Table 2: Selected USPS Liabilities and Outstanding Debt (Dollars in Billions)

	Selected USPS liabilities (Included on USPS balance sheet)			Funded Status of Retiree Health and Pension Funds (Not fully included in USPS Balance Sheet)			Totals			
Fiscal year	Outstanding debt	Workers' compensation liabilities	Other liabilities	Funded status for retiree health benefits (unfunded)	Funded status for CSRS (unfunded)	Funded status for FERS (unfunded)	**Total USPS balance sheet assets**	**Total USPS liabilities, debt, and unfunded obligations**	**Total USPS revenue**	Unfunded obligations, liabilities, and debt as percentage of revenue
2007	(4.2)	(7.8)	(12.7)	(55.0)	(3.1)	8.4	**25.8**	**(74.3)**	**75.0**	99%
2008	(7.2)	(8.0)	(12.5)	(53.5)	(9.0)	6.5	**26.0**	**(83.7)**	**75.0**	112%
2009	(10.2)	(10.1)	(13.2)	(52.0)	(7.3)	6.9	**28.1**	**(85.9)**	**68.1**	126%
2010	(12.0)	(12.6)	(13.6)	(48.6)	1.6	10.9	**24.3**	**(74.3)**	**67.1**	111%
2011	(13.0)	(15.1)	(14.2)	(46.2)	(17.8)	2.6	**23.4**	**(103.7)**	**65.7**	158%
2012	(15.0)	(17.6)	(13.7)	(47.8)	(18.8)	0.9	**22.6**	**(112.1)**	**65.2**	172%
2013	(15.0)	(17.2)	(12.5)	(48.3)	(17.8)	(0.1)	**21.6**	**(110.9)**	**67.3**	165%
2014	(15.0)	(18.4)	(12.5)	(48.9)	(19.4)	(3.6)	**23.0**	**(117.8)**	**67.9**	174%
2015	(15.0)	(18.8)	(12.5)	(54.8)	(20.4)	(3.7)	**24.0**	**(125.2)**	**69.0**	182%

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides data on selected USPS liabilities and outstanding debt at the end of each fiscal year as reported by USPS and the Office of Personnel Management (OPM). Key terms include the following:

Selected USPS liabilities include outstanding debt and workers' compensation liabilities, and other miscellaneous liabilities on USPS's balance sheet such as deferred revenue-prepaid postage, payables and accrued expenses, compensation and benefits liabilities (e.g., wages that have been earned but not yet paid as of the end of the fiscal year), and the value of employees' accumulated leave. Not included is the current liability for the statutory Postal Service Retiree Health Benefits Fund (PSRHBF) payments not yet paid by USPS, which is a component of the unfunded liability for retiree health benefits, and is also highlighted in Table 4 in the "Subtotal" line for the column labeled "Missed/future USPS prefunding payments."

Outstanding debt is total USPS short-term and long-term debt.

USPS liabilities for workers' compensation are the actuarial present value of future workers' compensation payments that USPS is estimated to have to make for injuries that have already occurred.

Unfunded actuarial liabilities for retiree health benefits are OPM estimates as of the end of each fiscal year. The unfunded liabilities are the excess of liabilities over funded assets. The liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers. The portion ($28.1 billion) of the 2015 $54.8 billion unfunded liability that is attributable to the missed prefunding payments is reflected as such on USPS's balance sheet; the remainder ($26.7 billion) of the $54.8 billion unfunded liability is not on USPS's balance sheet.

Unfunded Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) actuarial liabilities are OPM estimates as of the end of each fiscal year. The unfunded liabilities are the excess of liabilities over funded assets. The liabilities represent the actuarial present value of the cost of future retiree pension benefits for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs (in excess of worker contributions) for current workers.

Unfunded obligations, liabilities, and debt are the sum of the unfunded actuarial liabilities (obligations), USPS liabilities, and debt shown in this table.

Total USPS revenue consists of total USPS operating revenue plus interest and investment income for each fiscal year.

Total assets consist of current assets including cash and noncurrent assets largely comprising property and equipment measured at historic purchase value after depreciation. This does not include assets funding the retiree health and pension benefits.

Table 3: Funded Status of USPS Pension Obligations (Dollars in Billions)

	CSRS Funded Status			FERS Funded Status			Total USPS Pension Funded Status		
Fiscal year	CSRS assets	CSRS actuarial liabilities	Net CSRS funded Status (unfunded)	FERS assets	FERS actuarial liabilities	Net FERS funded status (unfunded)	Pension assets	Pension actuarial liabilities	**Total pension funded status (unfunded)**
2007	193.8	196.9	(3.1)	63.5	55.1	8.4	257.3	252.0	**5.3**
2008	195.1	204.1	(9.0)	69.3	62.8	6.5	264.4	266.9	**(2.5)**
2009	195.3	202.6	(7.3)	75.2	68.3	6.9	270.5	270.9	**(0.4)**
2010	194.6	193.0	1.6	80.8	69.9	10.9	275.4	262.9	**12.5**
2011	193.0	210.8	(17.8)	86.6	84.0	2.6	279.6	294.8	**(15.2)**
2012	190.7	209.5	(18.8)	91.7	90.8	0.9	282.4	300.3	**(17.9)**
2013	186.6	204.4	(17.8)	96.5	96.6	(0.1)	283.1	301.0	**(17.9)**
2014	182.1	201.5	(19.4)	100.9	104.5	(3.6)	283.0	306.0	**(23.0)**
Projected 2015	179.2	199.6	(20.4)	107.6	111.3	(3.7)	286.8	310.9	**(24.1)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of the Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) programs for USPS, as of the end of each fiscal year. Data are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the Civil Service Retirement and Disability Fund (CSRDF). Although CSRDF is a single fund and does not maintain separate accounts for individual agencies, Pub. L. 109-435 requires the asset disclosures shown in this table as if the funds were separate.

Actuarial Liabilities are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015, as of the end of each fiscal year. These data are prepared by OPM and represent the actuarial present value of the cost of future retiree pension benefits for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

Table 4: USPS Retiree Health Benefits Funded Status (Dollars in Billions)

Fiscal year	Beginning of year assets	One-time transfer from CSRS pension fund	One-time transfer from USPS escrow	USPS prefunding payment	Interest earned	End of year assets	End of year actuarial liabilities	End of year net funded status (unfunded)	Missed/future USPS prefunding payments
2007	0.0	17.1	3.0	5.4	0.3	25.7	No data	No data	0.0
2008	25.7	No data	No data	5.6	1.3	32.6	86.1	(53.5)	0.0
2009	32.6	No data	No data	1.4	1.5	35.5	87.5	(52.0)	0.0
2010	35.5	No data	No data	5.5	1.5	42.5	91.1	(48.6)	0.0
2011	42.5	No data	No data	0.0	1.6	44.1	90.3	(46.2)	0.0
2012	44.1	No data	No data	0.0	1.6	45.7	93.6	(47.9)	11.1
2013	45.7	No data	No data	0.0	1.6	47.3	95.6	(48.3)	5.6
2014	47.3	No data	No data	0.0	1.5	48.9	97.7	(48.9)	5.7
2015	48.9	No data	No data	0.0	1.5	50.3	105.2	(54.8)	5.7
Subtotal	No data	No data	No data	17.9	12.4	No data	No data	No data	28.1
2016	NA	No data	No data	N/A	N/A	N/A	N/A	N/A	5.8
Total	**N/A**	No data	No data	**17.9**	**12.4**	**N/A**	**N/A**	**N/A**	**33.9**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of USPS obligations for retiree health benefits. Data for assets, liabilities, and net funded status are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the PSRHBF, which is managed by OPM.

Actuarial Liabilities represent the actuarial present value of the cost of the portion of future retiree health premiums for which USPS is responsible and that are attributable to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

One-Time Transfer from the Civil Service Retirement System (CSRS) Pension Fund: The Postal Accountability and Enhancement Act (PAEA - Pub. L. 109-435, enacted Dec. 20, 2006) established the PSRHBF and directed OPM to determine any USPS surplus for CSRS obligations as of Sept. 30, 2006, and to transfer this amount from the Civil Service Retirement and Disability Fund (CSRDF) into the PSRHBF by June 30, 2007.

One-Time Transfer from USPS Escrow Fund: PAEA required USPS to transfer the escrow funds resulting from the Postal Civil Service Retirement System Funding Reform Act of 2003 (Pub. L. 108-18), which reduced USPS's CSRS payments and required these reductions to be placed into escrow.

USPS prefunding payments are statutory payments established by PAEA that are due from USPS to the PSRHBF. Subsequent congressional action reduced the 2009 prefunding payment from $5.4 billion to $1.4 billion and delayed $5.5 billion from fiscal year 2011 to fiscal year 2012, resulting in a requirement to pay $11.1 billion in fiscal year 2012. See 5 U.S.C § 8909a(d)(3)(A).

Missed Prefunding Payments have not been made by USPS and remain as current liabilities on USPS's balance sheet. These amounts are reflected in this table through a lower asset total and higher net unfunded liability than would have occurred if the prefunding payments were made.

Future Prefunding Payments are statutory payments due by the end of each fiscal year. USPS has reported that it expects not to make these payments.

Table 5: Summary of USPS Pension and Retiree Health Benefit Funds (Dollars in Billions)

	Total USPS Pension Funded Status			USPS Retiree Health Benefits Fund Status			Total Pension & RHB Summary		
Fiscal year	**Total pension assets**	**Total pension actuarial liabilities**	**Total pension funded status (unfunded)**	End of year assets	End of year actuarial liabilities	End of year net funded status (unfunded)	**Total assets**	**Total actuarial liabilities**	**Pension and retiree health benefit funded status**
2007	**257.3**	**252.0**	**5.3**	25.7	80.8	(55.0)	**283.0**	**332.8**	**(49.7)**
2008	**264.4**	**266.9**	**(2.5)**	32.6	86.1	(53.5)	**297.0**	**353.0**	**(56.0)**
2009	**270.5**	**270.9**	**(0.4)**	35.5	87.5	(52.0)	**306.0**	**358.4**	**(52.4)**
2010	**275.4**	**262.9**	**12.5**	42.5	91.1	(48.6)	**317.9**	**354.0**	**(36.1)**
2011	**279.6**	**294.8**	**(15.2)**	44.1	90.3	(46.2)	**323.7**	**385.1**	**(61.4)**
2012	**282.4**	**300.3**	**(17.9)**	45.7	93.6	(47.9)	**328.1**	**393.9**	**(65.8)**
2013	**283.1**	**301.0**	**(17.9)**	47.3	95.6	(48.3)	**330.4**	**396.6**	**(66.2)**
2014	**283.0**	**306.0**	**(23.0)**	48.9	97.7	(48.9)	**331.9**	**403.7**	**(71.9)**
2015	**286.8**	**310.9**	**(24.1)**	50.3	105.2	(54.8)	**337.1**	**416.1**	**(78.9)**

Source: U.S. Postal Service (USPS) Form 10-K Statements. | GAO-16-268T | GAO-16-651T

Note: This table provides the Office of Personnel Management's (OPM) estimation of the funded status of USPS obligations for pensions and retiree health benefits. Data for assets, liabilities, and net funded status are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015. Key terms include the following:

Assets include securities of the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF). Although CSRDF is a single fund and does not maintain separate accounts for individual agencies, Pub. L. 109-435 requires the asset disclosures shown in this table as if the funds were separate.

Actuarial Liabilities are actual amounts for fiscal years 2007-2014 and projected amounts for fiscal year 2015, as of the end of each fiscal year. These data are prepared by OPM and represent the actuarial present value of the cost of future retiree pension and health benefits costs for which USPS is responsible and that are attributed to past service; these liabilities reflect all such projected future costs for current retirees and beneficiaries and a portion of such projected future costs for current workers.

Net funded status equals assets minus liabilities.

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