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U.S. POSTAL SERVICE

Urgent Action Needed to Achieve Financial Sustainability

Statement of Gene L. Dodaro
Comptroller General of the United States

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Accountability * Integrity * Reliability

GAO-13-347T

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Highlights

Highlights of GAO-13-347T, a testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

USPS is in a serious financial crisis as its declining mail volume has not generated sufficient revenue to cover its expenses and financial obligations. First-Class Mail—which is highly profitable and generates the majority of the revenues used to cover overhead costs—declined 33 percent since it peaked in fiscal year 2001, and USPS projects a continued decline through fiscal year 2020. Declining mail volume is putting USPS's mission of providing prompt, reliable, and efficient universal services to the public at risk.

This testimony discusses (1) USPS's financial condition, (2) initiatives to reduce costs and increase revenues, and (3) actions needed to improve USPS's financial situation. The testimony is based primarily on our past and ongoing work and our analysis of USPS's recent financial results.

In previous reports, GAO has provided strategies and options that USPS and Congress could consider to better align USPS costs with revenues and address constraints and legal restrictions that limit USPS's ability to reduce costs and improve efficiency. GAO has also stated that Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability.

View GAO-13-347T. For more information, contact Lorelei St. James at (202) 512-2834 or stjamesl@gao.gov.

What GAO Found

The U.S. Postal Service (USPS) continues to incur unsustainable operating deficits, has not made required payments of $11.1 billion to prefund retiree health benefits, and has reached its $15 billion borrowing limit. Thus far, USPS has been able to operate within these constraints, but now faces a critical shortage of liquidity that threatens its financial solvency and ability to finance needed capital investment. USPS had an almost 25 percent decline in total mail volume and net losses totaling $40 billion since fiscal year 2006 (see table). While USPS achieved about $15 billion in savings and reduced its workforce by about 168,000 over this period, its debt and unfunded benefit liabilities grew to $96 billion by the end of fiscal year 2012. USPS expects mail volume and revenue to continue decreasing as online bill communication and e-commerce expand.

Table: USPS Financial and Operational Information, Fiscal Years 2006 through 2012

Fiscal year	Net income ($ in billions)	Annual savings ($ in billions)	Total mail volume (billions)	Career employees (thousands)
2006	$0.9	$0.3	213	696
2007	(5.1)	1.2	212	685
2008	(2.8)	2.0	203	663
2009	(3.8)	6.1	177	623
2010	(8.5)	3.0	171	584
2011	(5.1)	1.4	168	557
2012	(15.9)	1.1	160	528

Source: USPS.

USPS has reported on several initiatives to reduce costs and increase its revenues to curtail future net losses. To reduce costs, USPS announced a 5-year business plan in February 2012 with the goal of achieving $22.5 billion in annual cost savings by the end of fiscal year 2016. USPS has begun implementing this plan, which includes making changes to its mail processing, retail, and delivery networks and redesigning its workforce in line with changing mail volume. To achieve greater savings, USPS's Board of Governors recently directed postal management to accelerate these efforts. To increase revenue, USPS is pursuing 55 initiatives. While USPS expects shipping and package services to continue to grow, such growth is not expected to fully offset declining mail volume.

USPS needs to reduce its expenses to avoid even greater financial losses, repay its outstanding debt, continue funding its retirement obligations, and increase capital for investment, including replacing its aging vehicle fleet. Also, Congress needs to act to (1) modify USPS's retiree health benefit payments in a fiscally responsible manner; (2) facilitate USPS's ability to align costs with revenues based on changing workload and mail use; and (3) require that any binding arbitration resulting from collective bargaining takes USPS's financial condition into account. No one action in itself will address USPS's financial condition; we have previously recommended a comprehensive package of actions. If Congress does not act soon, USPS could be forced to take more drastic actions that could have disruptive, negative effects on its employees, customers, and the availability of postal services. USPS also reported that it would prioritize payments to employees and suppliers ahead of those to the federal government.

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Chairman Carper, Ranking Member Coburn, and Members of the Committee:

We appreciate the opportunity to be here today to discuss the status of the U.S. Postal Service's (USPS) financial condition and actions needed to address USPS's financial challenges. We added USPS's financial condition to our High Risk List in 2009, and USPS continues to face a serious financial crisis as its mail volume declines. USPS has not generated sufficient revenue to cover its expenses and financial obligations. While USPS must continue its efforts to align costs with revenues, congressional action is needed to facilitate necessary changes and help the Postal Service begin to transition to financial sustainability.

This testimony discusses (1) USPS's financial condition, (2) its initiatives to reduce costs and increase revenues, and (3) actions needed to improve its financial situation. This testimony is based primarily on our past and ongoing work examining various aspects of USPS's operations and our analysis of its recent financial results, an analysis that we performed from January 2013 to February 2013. Our work 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.

USPS's Financial Condition

USPS faces a dire 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 operating deficits that are unsustainable, has not made required payments of $11.1 billion to prefund retiree health benefit liabilities,[2] and has reached its $15 billion borrowing limit. Moreover,

[1] 39 U.S.C. § 101(a).

[2] The Postal Accountability and Enhancement Act (PAEA) required USPS to make fixed annual payments (ranging from $5.4 billion to $5.8 billion per year from fiscal years 2007 through 2016) to begin prefunding the cost of future retiree health benefits accrued by current employees and retirees. Pub. L. No. 109-435, § 803, 120 Stat. 3198 (Dec. 20, 2006).

USPS lacks liquidity to maintain its financial solvency or finance needed capital investment. As presented in table 1, since fiscal year 2006, USPS has achieved about $15 billion in savings and reduced its workforce by about 168,000, while also experiencing a 25 percent decline in total mail volume and net losses totaling $40 billion.

Table 1: USPS Financial and Operational Information, Fiscal Years 2006 through 2012

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2011	(5.1)	1.4	168	557
2012	(15.9)	1.1	160	528

Source: USPS.

As a result of significant declines in volume and revenue, USPS reported that it took unprecedented actions to reduce its costs by $6.1 billion in fiscal year 2009. Also, in fiscal year 2009, a cash shortfall necessitated congressional action to reduce USPS's mandated payment to prefund retiree health benefits from $5.4 billion to $1.4 billion.[3] In 2011, USPS's $5.5 billion required retiree health benefit payment was delayed until August 1, 2012.[4] USPS missed that payment as well as the $5.6 billion that was due by September 30, 2012.

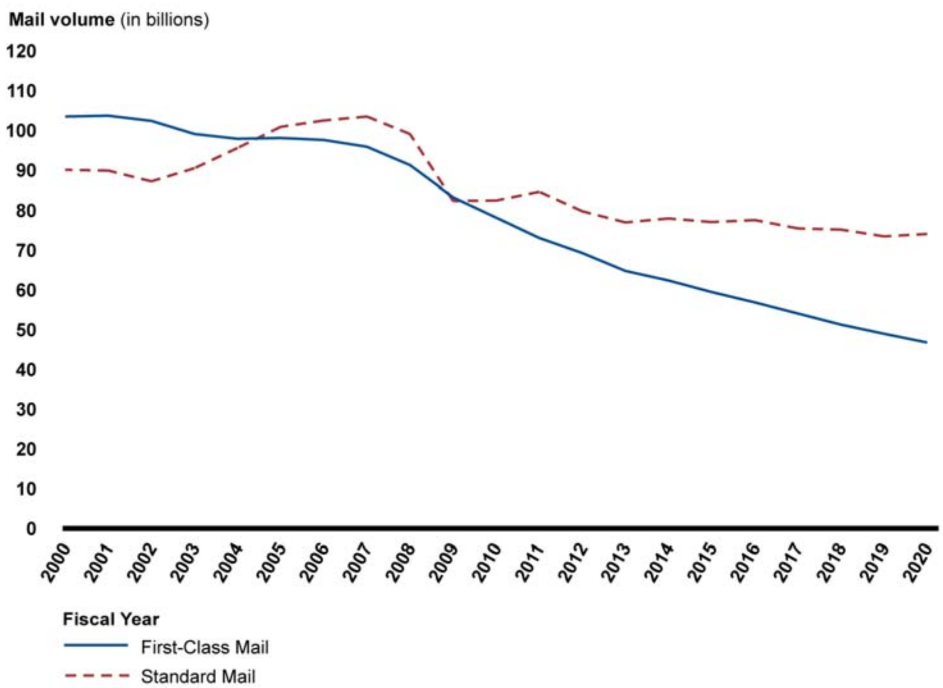
USPS continues to face significant decreases in mail volume and revenues as online communication and e-commerce expand. While remaining among USPS's most profitable products, both First-Class Mail and Standard Mail volumes have declined in recent years as illustrated in figure 1. First-Class Mail—which is highly profitable and generates the majority of the revenues used to cover overhead costs—declined 33

[3]Pub. L. No. 111-68, § 164, 123 Stat. 2053 (Oct. 1, 2009).

[4]Pub. L. No. 112-74, § 632, 125 Stat. 786, 928 (Dec. 23, 2011).

percent since it peaked in fiscal year 2001, and USPS projects a continued decline through fiscal year 2020. Standard Mail (primarily advertising) has declined 23 percent since it peaked in fiscal year 2007, and USPS projects that it will remain roughly flat through fiscal year 2020. Standard Mail is profitable overall, but it takes about three pieces of Standard Mail, on average, to equal the profit from the average piece of First-Class Mail. First-Class Mail and Standard Mail also face competition from electronic alternatives, as many businesses and consumers have moved to electronic payments over the past decade in lieu of using the mail to pay bills. USPS reported that for the first time, in fiscal year 2010, fewer than 50 percent of household bills were paid by mail.

Figure 1: Actual and Projected First-Class Mail and Standard Mail Volume, Fiscal Years 2000 through 2020



Source: USPS.

In addition to lost mail volume and revenue, USPS also has incurred debt, workers' compensation, and unfunded benefit liabilities, such as pension and retiree health benefits, that totaled $96 billion at the end of fiscal year 2012. Table 2 shows the amounts of these liabilities over the last 6 fiscal years. One of these liabilities, USPS's debt to the U.S. Treasury, increased over this period from $4 billion to its statutory limit of $15 billion.

Thus, USPS can no longer borrow to maintain its financial solvency or finance needed capital investment. USPS continues to incur unsustainable operating deficits. In this regard, the USPS Board of Governors recently directed postal management to accelerate restructuring efforts to achieve greater savings.

Table 2: Selected USPS Liabilities and Unfunded Pension and Health Benefit Liabilities, Fiscal Year End 2007 through 2012

(Dollars in billions)

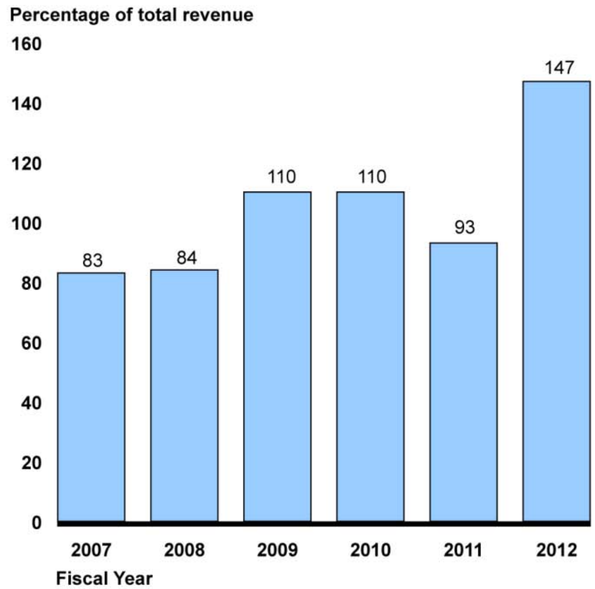
	Liabilities		Unfunded retiree health benefit and pension liabilities			
Fiscal Year	**Outstanding debt at the end of the fiscal year**	**Workers' compensation liabilities**	**Unfunded liabilities for retiree health benefits**	**Unfunded CSRS liabilities (surplus)[a]**	**Unfunded FERS liabilities (surplus)[a]**	**Total**
2007	4.2	7.7	55.0	3.1	(8.4)	**61.6**
2008	7.2	8.0	53.5	3.3	(8.8)	**63.2**
2009	10.2	10.1	52.0	9.6	(6.8)	**75.1**
2010	12.0	12.6	48.6	7.3	(6.9)	**73.6**
2011	13.0	15.1	46.2	(1.7)	(11.4)	**61.2**
2012	15.0	17.6	47.8	18.7	(3.0)	**96.1**

Source: USPS.

[a]The Civil Service Retirement System (CSRS), which became effective on August 1, 1920, established a retirement system for certain federal employees. It was replaced by the Federal Employees Retirement System (FERS) for federal employees who first entered covered service on and after January 1, 1987. FERS and CSRS projections are sensitive to the economic and demographic assumptions used and have fluctuated from year to year due to actual economic and demographic outcomes (such as investment returns, salary increases, and mortality) being different than those predicted by the assumptions, and to changes in the assumptions themselves.

These selected USPS liabilities increased from 83 percent of revenues in fiscal year 2007 to 147 percent of revenues in fiscal year 2012 as illustrated in figure 2. This trend demonstrates how USPS liabilities have become a large and growing financial burden.

Figure 2: Selected USPS Liabilities and Unfunded Pension and Health Benefit Liabilities as a Percentage of USPS Revenues



Source: USPS.

USPS's dire financial condition makes paying for these liabilities highly challenging. In addition to reaching its limit in borrowing authority in fiscal year 2012, USPS did not make required prefunding payments of $11.1 billion for fiscal year 2011 and 2012 retiree health benefits. At the end of fiscal year 2012, USPS had $48 billion in unfunded retiree health benefit liabilities.

Looking forward, USPS has warned that it suffers from a severe lack of liquidity. As USPS has reported, "Even with some regulatory and legislative changes, our ability to generate sufficient cash flows from current and future management actions to increase efficiency, reduce costs, and generate revenue may not be sufficient to meet all of our financial obligations."[5] For this reason, USPS has stated that it continues to lack the financial resources to make its annual retiree health benefit prefunding payment. USPS has also reported that in the short term,

[5]United States Postal Service, *2012 Report on Form 10-K* (Washington, D.C.: Nov. 15, 2012) 10.

should circumstances leave it with insufficient liquidity, it may need to prioritize payments to its employees and suppliers ahead of those to the federal government. For example, near the end of fiscal year 2011, in order to maintain its liquidity USPS temporarily halted its regular contributions for the Federal Employees Retirement System (FERS) that are supposed to cover the cost of benefits being earned by current employees. However, USPS has since made up those missed FERS payments. USPS's statements about its liquidity raise the issue of whether USPS will need additional financial help to remain solvent while it restructures and, more fundamentally, whether it can remain financially self-sustainable in the long term.

USPS has also raised the concern that its ability to negotiate labor contracts is essential to maintaining financial stability and that failure to do so could have significant adverse consequences on its ability to meet its financial obligations. 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, binding arbitration by a third-party panel is used to establish agreement. There is no statutory requirement for USPS's financial condition to be considered in arbitration. In 2010, we reported that the time has come to reexamine USPS's 40-year-old structure for collective bargaining, noting that wages and benefits comprise 80 percent of its costs at a time of escalating losses and a dramatically changed competitive environment.[6] We also reported that Congress should consider revising the statutory framework for collective bargaining to ensure that USPS's financial condition be considered in binding arbitration.

USPS Initiatives to Reduce Costs and Increase Revenues

USPS has several initiatives to reduce costs and increase its revenues to curtail future net losses. In February 2012, USPS announced a 5-year business plan with the goal of achieving $22.5 billion in annual cost savings by the end of fiscal year 2016. USPS has begun implementing this plan, which includes initiatives to save:

[6]GAO, *U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455 (Washington, D.C.: Apr. 12, 2010).

- $9 billion in mail processing, retail, and delivery operations, including consolidation of the mail processing network, and restructuring retail and delivery operations;

- $5 billion in compensation and benefits and non-personnel initiatives; and

- $8.5 billion through proposed legislative changes, such as moving to a 5-day delivery schedule[7] and eliminating the obligation to prefund USPS's retiree health benefits.

Simultaneously, USPS's 5-year plan would further reduce the overall size of the postal workforce by roughly 155,000 career employees, with many of those reductions expected to result from attrition. According to the plan, half of USPS's career employees are currently eligible for full or early retirement. Reducing its workforce is vital because, as noted, compensation and benefits costs continue to generate about 80 percent of USPS's expenses. Compensation alone (primarily wages) exceeded $36 billion in fiscal year 2012, or close to half of its costs. Compensation costs decreased by $542 million in fiscal year 2012 as USPS offered separation incentives to postmasters and mail handlers to encourage more attrition. This fiscal year, separation incentives were offered to employees represented by the American Postal Workers Union (e.g., mail processing and retail clerks) to encourage further attrition as processing and retail operations are redesigned and consolidated to more closely correspond with workload.

To accelerate implementation of its plan, in early February 2013, USPS announced plans to transition to a new delivery schedule by early August 2013 that would limit its delivery of mail on Saturdays to mail addressed to Post Office Boxes and to packages.[8] USPS's operational plan for the new delivery schedule anticipates a combination of employee reassignment and attrition to generate an expected annual cost savings of about $2 billion once its plan is fully implemented. Over the past several years, USPS has advocated shifting to a 5-day delivery schedule

[7]USPS's annual appropriations acts have required USPS to provide 6-day delivery of mail at not less than 1983 levels. See e.g., Pub. L. No. 112-74, 125 Stat. 786, 923 (Dec. 23, 2011).

[8]In addition, post offices open on Saturdays will remain open.

for both mail and packages. According to USPS, however, recent strong growth in package delivery—as we will discuss in more detail below—and projections for continued strong package growth throughout the coming decade led to a revised approach to maintain package delivery 6 days per week.

Another key area of potential savings included in the 5-year plan focused on reducing compensation and benefit costs. USPS's largest benefit payments in fiscal year 2012 included:

- $7.8 billion in current-year health insurance premiums for employees, retirees, and their survivors (USPS's health benefit payments would have been $13.4 billion if USPS had paid the required $5.6 billion retiree health prefunding payment[9]);
- $3.0 billion in FERS pension funding contributions;
- $1.8 billion in social security contributions;
- $1.4 billion in workers' compensation payments; and
- $1.0 billion in Thrift Savings Plan contributions.

USPS has proposed administering its own health care plan for its employees and retirees and withdrawing from the Federal Employee Health Benefits (FEHB) program so that it can better manage its costs and achieve significant savings, which USPS has estimated could be over $7 billion annually. About $5.5 billion of the estimated savings would come from eliminating the retiree health benefit prefunding payment and another $1.5 billion would come from reducing health care costs. We are currently reviewing USPS's proposal including its potential financial effects on participants and USPS.

To increase revenue, USPS is working to increase use of shipping and package services. With the continued increase in e-commerce, USPS projects that shipping and package volume will grow by 7 percent in fiscal year 2013, after increasing 7.5 percent in fiscal year 2012. Revenue from these two product categories represented about 18 percent of USPS's

[9]The $5.6 billion is the amount originally due in fiscal year 2012, before the fiscal year 2011 required payment of $5.5 billion was deferred and added to fiscal year 2012.

fiscal year 2012 operating revenue. However, USPS does not expect that continued growth in shipping and package services will fully offset the continued decline of revenue from First-Class Mail and other products.

We recently reported that USPS is pursuing 55 initiatives to generate revenue.[10] Forty-eight initiatives are extensions of existing lines of postal products and services, such as offering Post Office Box customers a suite of service enhancements (e.g., expanded lobby hours and earlier pickup times) at selected locations and increasing public awareness of the availability of postal services at retail stores. The other seven initiatives included four involving experimental postal products, such as prepaid postage on the sale of greeting cards, and three that were extensions of nonpostal services that are not directly related to mail delivery. USPS offers 12 nonpostal services including Passport Photo Services, the sale of advertising to support change-of-address processing, and others generating a net income of $141 million in fiscal year 2011.[11] USPS has also increased its use of negotiated service agreements[12] that offer competitively priced contracts as well as promotions with temporary rate reductions that are targeted to retain mail volume. We are currently reviewing USPS's use of negotiated service agreements.

As USPS attempts to reduce costs and increase revenue, its mission to provide universal service continues. USPS's network serves more than 152 million residential and business delivery points. In May 2011, we reported that many of USPS's delivery vehicles were reaching the end of their expected 24-year operational life and that USPS's financial challenges pose a significant barrier to replacing or refurbishing its fleet.[13]

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[10]GAO, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products,* GAO-13-216 (Washington, D.C.: Jan. 15, 2013).

[11]Such services were grandfathered by the Postal Regulatory Commission (PRC) after enactment of PAEA. PAEA eliminated USPS's authority to offer nonpostal services unless such services were offered as of January 1, 2006, and expressly grandfathered by PRC. USPS may, however, offer new nonpostal services and products if they are related to the grandfathered nonpostal services. It may also offer experimental postal products that meet certain conditions.

[12]Negotiated service agreements are customized postal rate contracts with individual companies that generally provide lower prices on specific mail products in exchange for meeting volume targets and mail preparation requirements.

[13]GAO, *United States Postal Service: Strategy Needed to Address Aging Delivery Fleet*, GAO-11-386 (Washington, D.C.: May 5, 2011).

As a result, USPS's approach has been to maintain the delivery fleet until USPS determines how to address longer term needs, but USPS has been increasingly incurring costs for unscheduled maintenance because of breakdowns. The eventual replacement of its vehicle delivery fleet represents yet another financial challenge facing USPS. We are currently reviewing USPS's investments in capital assets.

Actions Needed to Improve USPS's Financial Situation

We have issued a number of reports on strategies and options for USPS to improve its financial situation by optimizing its network and restructuring the funding of its pension and retiree health benefit liabilities.

Network Optimization

To assist Congress in addressing issues related to reducing USPS's expenses, we have issued several reports analyzing USPS's initiatives to optimize its mail processing, delivery, and retail networks.

Mail Processing

In April 2012, we issued a report related to USPS's excess capacity in its network of 461 mail processing facilities.[14] We found that USPS's mail processing network exceeds what is needed for declining mail volume. USPS proposed consolidating its mail processing network, a plan based on proposed changes to overnight delivery service standards for First-Class Mail and Periodicals. Such a change would have enabled USPS to reduce an excess of 35,000 positions and 3,000 pieces of mail equipment, among other things. We found, however, that stakeholder issues and other challenges could prevent USPS from implementing its plan for consolidating its mail processing network. Although some business mailers and Members of Congress expressed support for consolidating mail processing facilities, other mailers, Members of Congress, affected communities, and employee organizations raised concerns. Key issues raised by business mailers were that closing facilities could increase their transportation costs and decrease service. Employee associations were concerned that reducing service could result in a greater loss of mail volume and revenue that could worsen USPS's financial condition. We reported that if Congress preferred to retain the current delivery service standards and associated network, decisions will

[14]GAO, *U.S. Postal Service: Mail Processing Network Exceeds What Is Needed for Declining Mail Volume*, GAO-12-470 (Washington, D.C.: Apr. 12, 2012).

need to be made about how USPS's costs for providing these services will be paid.

Delivery

In March 2011, we reported on USPS's proposal to reduce costs by moving from a 6-day to a 5-day delivery schedule.[15] USPS delivers to more than 152 million addresses. USPS also estimated that 5-day delivery would result in minimal mail volume decline. We found that the extent to which USPS can achieve cost savings from this change and mitigate volume and revenue loss depends on how well and how quickly USPS can realign its operations, workforce, and networks; maintain service quality; and communicate with stakeholders. USPS has spent considerable time and resources developing plans to facilitate this transition. Nevertheless, risks and uncertainties remain, such as how quickly USPS can realign its workforce through attrition; how effectively it can modify certain finance systems; and how mailers will respond to this change in service.

Retail

In April 2012, we reported that USPS has taken several actions to restructure its retail network—which included almost 32,000 postal-managed facilities in fiscal year 2012—through reducing its workforce and its footprint while expanding retail alternatives.[16] We also reported on concerns customers and other stakeholders have expressed regarding the impact of post office closures on communities, the adequacy of retail alternatives, and access to postal services, among others. We discussed challenges USPS faces, such as legal restrictions and resistance from some Members of Congress and the public, that have limited USPS's ability to change its retail network by moving postal services to more nonpostal-operated locations (such as grocery stores), similar to what other nations have done.[17] The report concluded that USPS cannot support its current level of services and operations from its current revenues. We noted that policy issues remain unresolved related to what level of retail services USPS should provide, how the cost of these

[15]GAO, *U.S. Postal Service: Ending Saturday Delivery Would Reduce Costs, but Comprehensive Restructuring Is Also Needed*, GAO-11-270 (Washington, D.C.: Mar. 29, 2011).

[16]GAO, *U.S. Postal Service: Challenges Related to Restructuring the Postal Service's Retail Network*, GAO-12-433 (Washington, D.C.: Apr. 17, 2012).

[17]GAO, *U.S. Postal Service: Foreign Posts' Strategies Could Inform U.S. Postal Service's Efforts to Modernize*, GAO-11-282 (Washington, D.C.: Feb. 16, 2011).

services should be paid, and how USPS should optimize its retail network.

In November 2011, we reported that USPS had expanded access to its services through alternatives to post offices in support of its goals to improve service and financial performance and recommended that USPS develop and implement a plan with a timeline to guide efforts to modernize USPS's retail network, and that addresses both traditional post offices and retail alternatives as well.[18] We added that the plan should also include:

(1) criteria for ensuring the retail network continues to provide adequate access for customers as it is restructured;

(2) procedures for obtaining reliable retail revenue and cost data to measure progress and inform future decision making; and

(3) a method to assess whether USPS's communications strategy is effectively reaching customers, particularly those customers in areas where post offices may close.

In November 2012, we reported that although contract postal units (CPUs)—independent businesses compensated by USPS to sell most of the same products and services as post offices at the same price—have declined in number, they have supplemented post offices by providing additional locations and hours of service.[19] More than 60 percent of CPUs are in urban areas where they can provide customers nearby alternatives when they face long lines at post offices. In fiscal year 2011, after compensating CPUs, USPS retained 87 cents of every dollar of CPU revenue. We found that limited interest from potential partners, competing demands on USPS staff resources, and changes to USPS's retail network posed potential challenges to USPS's use of CPUs.

[18] GAO, *U.S. Postal Service: Action Needed to Maximize Cost-Saving Potential of Alternatives to Post Offices*, GAO-12-100 (Washington, D.C.: Nov. 17, 2011).

[19] GAO, *Contract Postal Units: Analysis of Location, Service, and Financial Characteristics,* GAO-13-41 (Washington, D.C.: Nov. 14, 2012).

Addressing USPS Benefit Liabilities

To assist Congress in addressing issues related to funding USPS's liabilities, we have also issued several reports that address USPS's liabilities, including its retiree health benefits, pension, and workers' compensation.

Retiree Health Benefits

In December 2012, we reported that USPS's deteriorating financial outlook will make it difficult to continue the current schedule for prefunding postal retiree health benefits in the short term, and possibly to fully fund the remaining $48 billion unfunded liability over the remaining decades of the statutorily required actuarial funding schedule.[20] However, we also reported that deferring funding could increase costs for future ratepayers and increase the possibility that USPS may not be able to pay for some or all of its liability. We stated that failure to prefund these benefits is a potential concern. Making affordable prefunding payments would protect the viability of USPS by not saddling it with bills later on, when employees are already retired and no longer helping it generate revenue; it can also make the promised benefits more secure. Thus, as we have previously reported, we continue to believe that it is important for USPS to prefund these benefits to the maximum extent that its finances permit. We also recognize that without congressional or further USPS actions to align revenue and costs, USPS will not have the finances needed to make annual payments and reduce its long term retiree health unfunded liability. No funding approach will be viable unless USPS can make the required payments.

FERS Pension Benefits

We reported on options with regard to the FERS surplus, noting the degree of uncertainty inherent in this estimate and reporting on the implications of alternative approaches to accessing this surplus.[21] The estimated FERS surplus decreased from 2011 to 2012, and at the end of fiscal year 2012, USPS had an estimated FERS surplus of $3.0 billion and an estimated CSRS deficit of $18.7 billion.[22]

[20]GAO, *U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits*, GAO-13-112 (Washington, D.C.: Dec. 4, 2012).

[21]GAO, *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).

[22]USPS is required by law to make certain payments to the Civil Service Retirement and Disability Fund to fund its share of CSRS and FERS pension costs. The same federal fund finances both CSRS and FERS.

Workers' Compensation Benefits

In 2012, we reported on workers' compensation benefits paid to both postal and nonpostal beneficiaries under the Federal Employees' Compensation Act (FECA).[23] USPS has large FECA program costs. At the time of their injury, 43 percent of FECA beneficiaries in 2010 were employed by USPS. FECA provides benefits to federal workers who sustained injuries or illnesses while performing federal duties, and benefits are not taxed or subject to age restrictions. Various proposals to modify FECA's benefit levels have been advanced. At the request of Congress, we have provided information to assist it in making decisions about the FECA program.

Concluding Observations

In summary, to improve its financial situation, USPS needs to reduce its expenses to close the gap between revenue and expenses, repay its outstanding debt, continue funding its retirement obligations, and increase capital for investment, such as replacing its aging vehicle fleet. In addition, as noted in prior reports, congressional action is needed to (1) modify USPS's retiree health benefit payments in a fiscally responsible manner; (2) facilitate USPS's ability to align costs with revenues based on changing workload and mail use; and (3) require that any binding arbitration resulting from collective bargaining takes USPS's financial condition into account. As we have continued to underscore, Congress and USPS need to reach agreement on a comprehensive package of actions to improve USPS's financial viability. In previous reports, we have provided strategies and options, to both reduce costs and enhance revenues, that Congress could consider to better align USPS costs with revenues and address constraints and legal restrictions that limit USPS's ability to reduce costs and improve efficiency; we have also reported on implications for addressing USPS's benefit liabilities. If Congress does not act soon, USPS could be forced to take more drastic actions that could have disruptive, negative effects on its employees, customers, and the availability of reliable and affordable postal services.

[23]GAO, *Federal Employees' Compensation Act: Analysis of Proposed Program Changes*, GAO-13-108 (Washington, D.C.: Oct. 26, 2012), *Federal Employees' Compensation Act: Analysis of Proposed Changes on USPS Beneficiaries*, GAO-13-142R (Washington, D.C.: Nov. 26, 2012), and *Federal Employees' Compensation Act: Effects of Proposed Changes on Partial Disability Beneficiaries Depend on Employment After Injury*, GAO-13-143R (Washington, D.C.: Dec. 7, 2012).

Chairman Carper, Ranking Member Coburn, 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 Staff Acknowledgments

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