GAO Highlights

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

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.

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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.