UNITED STATES POSTAL SERVICE

INTEGRATED FINANCIAL PLAN FY 2007 - ADDENDUM

OPERATING PLAN

CAPITAL PLAN

FINANCING PLAN

PREFACE

This addendum to the United States Postal Service Integrated Financial Plan (IFP) for Fiscal Year (FY) 2007 reflects the results of The Postal Accountability and Enhancement Act (P.L. 109-435) referred to in this document as the new law.

The new law, enacted December 20, 2006 will have a multi-billion dollar impact on the financial statements of the Postal Service. Specifically, for FY 2007, the law requires $3 billion of previously mandated escrow funds be transferred to fund retiree health benefits; an additional $5.4 billion contribution toward funding retiree health benefits; and exempts the Postal Service from making further payments of $1.5 billion for the employer contribution to the Civil Service Retirement System (CSRS). In total, net income for FY 2007 will be reduced by $6.9 billion from these changes. Other potential costs such as Sarbanes-Oxley implementation and other operational variances have not yet been quantified.

This document provides the revisions to the Operating and Financing plans as a result of the new law. No other changes have been made to the Integrated Financial Plan approved by the Board of Governors in September 2006. It should be noted that there are no changes to the Capital Plan as a result of this legislation. A more detailed explanation of the new law and the impact to the financial plan is contained in the Executive Summary section below.

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EXECUTIVE SUMMARY

The new law, enacted December 20, 2006, has many complex components. It has made significant reforms in the governance of the Postal Service and significantly changed Postal Service financial responsibilities, particularly in respect to the funding of Civil Service Retirement System (CSRS) benefits and retiree health benefits.

P.L.109-435 abolishes the escrow requirement of P.L.108-18 which instructed the Postal Service to place into an escrow account by September 2006, any “savings” from the change in the retirement provisions created by P.L.108-18. OPM calculated the savings at $2,958 million as of September 30, 2006. P.L.109-435 replaces that portion of P.L.108-18 with a requirement to fund retiree health benefits and outlines a fixed payment stream for the first 10 years.

Additionally, P.L.109-435 returned to the U.S. Treasury the obligation to fund the portion of the retirement benefit for postal employees in CSRS that was earned while serving in the military. This obligation, estimated by the Office of Personnel Management (OPM) at $27 billion, was transferred from the Treasury to the Postal Service in 2003 with the enactment of P.L. 108-18. With the elimination of this obligation, the Postal Service has fully funded the CSRS pension obligation. Recognizing that the pension obligation will be fully funded, the law exempts the Postal Service from making any employer contribution to CSRS that would otherwise be required under Title 5, chapter 83, of the United States Code. This provision was effective October 14, 2006. The Office of Personnel Management (OPM) is required by June 15, 2007, to determine the funded status of the CSRS plan as of September 30, 2006 and any over-funding will be transferred to the newly created Postal Service Retiree Health Benefits Fund (PSRHBF).

The Postal Service will continue to account for its participation in U.S. government sponsored health benefit and retirement plans using multi-employer plan accounting rules in accordance with Financial Accounting Standards Board Statement 106, Employers’ Accounting for Postretirement Benefits Other Than Pensions and Financial Accounting Standards Board Statement 87, Employers’ Accounting for Pension Costs.

Finally, P.L.109-435 also repealed the provision that required the payment of an additional annual amount known as a “supplemental liability,” if necessary, each September, as determined by OPM. The "supplemental liability" represented the excess of the actuarial present value of future benefits over the actuarial present value of plan assets, future contributions, earnings and other actuarial factors related to postal participants in the CSRS plan. P.L.108-18 required that this “supplemental liability” be retired by September 30, 2043. The “supplemental liability” payment anticipated for 2007 was $257 million.
The net impact of these changes directly affects the Operating and Financing plans for FY 2007. Details of these changes are outlined in the text and accompanying tables below.

Operating Plan – Expense

With the enactment of the new law, the Postal Service's total FY 2007 expense plan of $80.5 billion is an increase of $6.9 billion or 9.4 percent, over the original plan. This change is a direct result of the following.

The requirement in the new law that directed the Postal Service to transfer $3.0 billion previously held in escrow to the newly created PSRHB, which results in the recognition of this $3.0 billion as an expense under GAAP.

P.L.109-435 requirement of $5.4 billion in funding for the newly created PSRHBF.

Relief from the employer contribution to the CSRS payment estimated at $1.5 billion in "savings" to the Postal Service.

The net result is an additional expense of $6.9 billion. Therefore, the projected net loss for USPS in FY 2007 is $5.2 billion. Fiscal year forecasts assume an implementation date of May 14, 2007 for the pending rate case (R-2006-1).

FY 2007 Operating Budget

($ Billions)	FY 2007 Plan	FY 2007 Revised Plan
Revenue	$75.3	$75.3
Expense	73.6	73.6
Income Before New Law	$1.7	$1.7
2006 Escrow	----	-3.0
Health Benefit Funding	----	-5.4
CSRS Refund	----	+1.5
Net Income/Loss	+$1.7	-$5.2

Capital Plan

The Capital Plan remains the same with $3.5 billion in capital commitments and planned Capital Cash Outlays of $2.2 billion.

Financing Plan

With the enactment of the new law, the Postal Service's cash flows will change as the $3 billion of cash held in escrow since the end of FY 2006 is transferred and the new FY 2007 cash flows become effective. The net impact of the new cash flows, changes what was a projected cash flow from operations of $4 billion to a negative $3 billion. The total outflow of cash, including capital outlays of $2.2 billion, will be accomplished by using the $3 billion of restricted cash from FY 2006, reducing non-restricted cash by $300 million, and increasing debt outstanding by an estimated $1.8 billion. This is a $600 million increase over the original borrowing plan estimate. At the end of the fiscal year, cash will be approximately $700 million and debt outstanding will be around $4 billion. Consistent with established practice, on the first day of FY 2008, the Postal Service will begin applying all available cash to debt reduction.

FY 2007 Cash Flow Changes

Use of Cash:		
2006 Escrow Transferred	$3.0B	
Sept 2007 Retiree HB Fund	$5.4B	
		$8.4B
Sources of Cash:		
2006 Restricted Cash	$3.0B	
Planned 2007 Escrow	$3.3B	
Planned CSRS Contributions	$1.5B	
		$7.8B
Net Cash Outflow		$0.6B

FY 2007 Debt Outstanding

($Billions)	Original IFP	Revised IFP
As of Sept. 30, 2006 Year End Debt	$2.1	$2.1
FY 07 Borrowing	1.2	1.8
Debt Outstanding at Year End	$3.3	$3.9