



GAO-09-937SP is an addition to GAO's January 2009 *High-Risk Series*. For additional information about this high-risk area, contact Phillip Herr at (202) 512-2834 or herrp@gao.gov.

Why Area Is Important

GAO is adding the U.S. Postal Service's (USPS) financial condition to the list of high-risk areas needing attention by Congress and the executive branch to achieve broad-based transformation. Amid challenging economic conditions and a changing business environment, USPS is facing a deteriorating financial situation in which it does not expect to cover its expenses and financial obligations in fiscal years 2009 and 2010. This year, USPS expects to increase its year-end debt to \$10.2 billion and incur a cash shortfall of about \$1 billion (see table).

Another key risk factor is the accelerated decline in mail volume. Mail volume declined by 9.5 billion pieces in fiscal year 2008 to about 203 billion pieces. As of the end of May 2009, mail volume had decreased another 18.5 billion pieces, and USPS expects to end fiscal year 2009 with mail volume of 175 billion pieces—about 28 billion pieces fewer than in fiscal year 2008. Further, it expects flat or continued volume and revenue declines over the next 5 years. These trends expose weaknesses in USPS's business model, which has relied on growth in mail volume to help cover costs and enable USPS to be self-supporting.

Addressing USPS's financial viability is critical as USPS plays a vital role in the U.S. economy and in providing postal services to all communities. Moreover, it is the largest civilian federal agency, employing about 633,000 career and 94,000 noncareer employees and operating a total of about 38,000 facilities nationwide.

HIGH-RISK SERIES

Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability (New)

Why GAO Is Designating This Area as High Risk

USPS urgently needs to restructure to address its current and long-term financial viability. USPS has not been able to cut costs fast enough to offset the accelerated decline in mail volume and revenue—particularly costs related to its workforce, retail and processing networks, and delivery services. To achieve financial viability, USPS must align its costs with revenues, generate sufficient earnings to finance capital investment, and manage its debt.

USPS's Financial Results and Projections, Fiscal Years 2006 through 2010

Dollars in billions

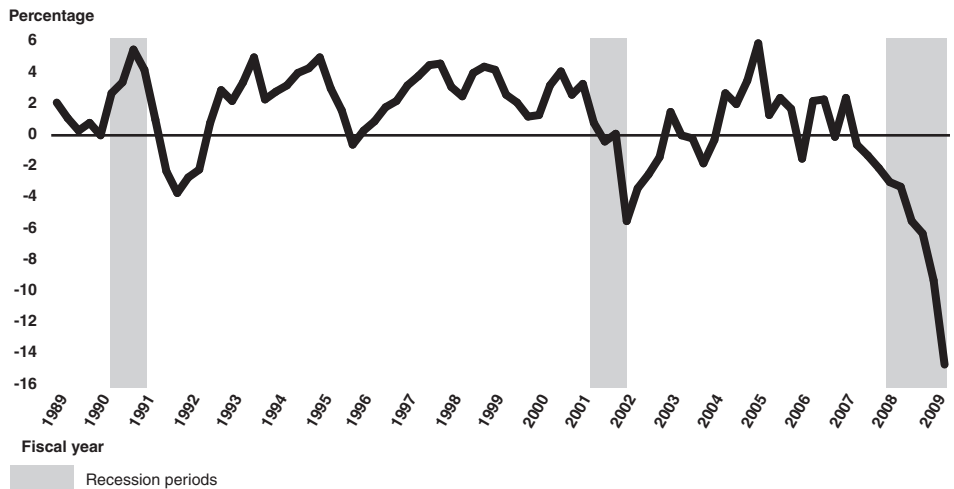
Fiscal year	Net income (loss)	Year-end cash	Year-end debt
2006	\$0.9	1.0	2.1
2007	(5.1)	0.9	4.2
2008	(2.8)	1.4	7.2
2009 (projected)	(7.0)	(1.0)	10.2
2010 (projected)	(7.0)	(4.5)	13.2

Source: USPS.

Note: Cash projections assume cost savings of \$5.9 billion in 2009 and \$8 billion in 2010 and no relief from retiree health benefits payments.

Mail use has been changing over the past decade as businesses and consumers have moved to electronic communication and payment alternatives. Mail volume decline has accelerated with the recession, particularly among major users in the advertising, financial, and housing sectors. Mail volume has typically returned after recessions (see figure), but USPS's 5-year forecast suggests that much of the recent volume decline will not return.

Quarterly Changes in Total Mail Volume, Fiscal Year 1989 through March 2009



Sources: USPS (mail volume); National Bureau of Economic Research (recession periods).

Action is needed in multiple areas, including possible action and support by Congress; no single change will be sufficient to address USPS's challenges.

- The short-term challenge for USPS is to cut costs quickly enough to offset volume and revenue declines, so that it can cover its operating expenses.
- The long-term challenge is to restructure USPS operations, networks, and workforce to reflect changes in mail volume, revenue, and use of mail.

Highlights of High-Risk Series: USPS (continued)

USPS has had difficulty reducing costs in two areas due to limited flexibility.

First, in regard to compensation and benefits, which compose about 80 percent of costs, USPS has a window of opportunity to reduce the cost and size of its workforce, through attrition and the large number of upcoming retirements, to minimize the need for layoffs. To make changes in this area, USPS will need to negotiate with its four largest unions on collective bargaining agreements that will expire in 2010 and 2011. These agreements cover about 85 percent of postal employees and include items such as cost-of-living adjustments, work rules, and layoff protections. USPS also consults on pay and benefits with three management associations representing most of its other employees.

Second, USPS also needs to optimize its retail, mail processing, and delivery networks to eliminate growing excess capacity and maintenance backlogs, reduce costs, and improve efficiency. USPS has made limited progress in optimizing its networks.

Key actions USPS could take include the following:

1. Reduce compensation and benefit costs through

- *retirements*: About 162,000 USPS employees are eligible to retire this year, which will increase to almost 300,000 within the next 4 years.
- *early retirements*: About 150,000 USPS employees were recently offered voluntary early retirement, but less than 3 percent accepted.
- *lower benefit costs*: USPS pays a higher percentage of employee health benefit premiums than other federal agencies (80 percent versus 72 percent, respectively). In addition, USPS pays 100 percent of employee life insurance premiums, while other federal agencies pay about 33 percent.

2. Consolidate retail and processing networks

- Remove excess capacity in the 400 mail processing facilities nationwide, where processing capacity for First-Class Mail exceeds processing needs by 50 percent.
- Maximize use of lower-cost retail alternatives: A growing amount of USPS retail revenue comes through alternate channels, such as stamps bought by mail, on the Internet, and at grocery stores.
- Reduce the network of 37,000 retail facilities, where maintenance has been underfunded for years, resulting in deteriorating facilities and a maintenance backlog.

3. **Consolidate field structure**: Review need for 74 district offices and 9 area offices.

4. **Generate revenue through new or enhanced products**: Use its pricing and product flexibility to maximize profitable mail volume.

Other actions that USPS has proposed that would require congressional approval include the following:

1. **Change funding requirements for retiree health benefits**: USPS has asked Congress to revise the funding requirements for its retiree health benefit obligation as it does not expect to make the full amount of its \$5.4 billion retiree health benefit payment at the end of this fiscal year due to a cash shortage.
2. **Realign delivery services with changing use of mail**: USPS has asked Congress to allow it to reduce delivery from 6 to 5 days per week as its revenue per delivery has declined 20 percent from fiscal year 2000 to fiscal year 2009, as have pieces of mail delivered per address.

Suggested Next Steps

To address its short- and long-term challenges, USPS should develop and implement a broad restructuring plan—with input from the Postal Regulatory Commission and other stakeholders and approval by Congress and the administration—that includes key milestones and time frames for actions, addresses key issues, and identifies what steps Congress and other stakeholders may need to take.

USPS's restructuring plan should address how it plans to

- realign postal services, such as delivery frequency, delivery standards, and access to retail services, with changes in the use of mail by consumers and businesses;
- better align costs and revenues, including compensation and benefit costs;
- optimize its operations, networks, and workforce;
- increase mail volumes and revenues; and
- retain earnings, so that it can finance needed capital investments and repay its growing debt.

Related GAO Products for:

Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability

U.S. Postal Service: Network Rightsizing Needed to Help Keep USPS Financially Viable. [GAO-09-674T](#). Washington, D.C.: May 20, 2009.

U.S. Postal Service: Escalating Financial Problems Require Major Cost Reductions to Limit Losses. [GAO-09-475T](#). Washington, D.C.: March 25, 2009.

U.S. Postal Service: Deteriorating Postal Finances Require Aggressive Actions to Reduce Costs. [GAO-09-332T](#). Washington, D.C.: January 28, 2009.

U.S. Postal Service: USPS Has Taken Steps to Strengthen Network Realignment Planning and Accountability and Improve Communication. [GAO-08-1022T](#). Washington, D.C.: July 24, 2008.

U.S. Postal Service Facilities: Improvements in Data Would Strengthen Maintenance and Alignment of Access to Retail Services. [GAO-08-41](#). Washington, D.C.: December 10, 2007.

U.S. Postal Service: Mail Processing Realignment Efforts Under Way Need Better Integration and Explanation. [GAO-07-717](#). Washington, D.C.: June 21, 2007.

U.S. Postal Service: Delivery Performance Standards, Measurement, and Reporting Need Improvement. [GAO-06-733](#). Washington, D.C.: July 27, 2006.

U.S. Postal Service: The Service's Strategy for Realigning Its Mail Processing Infrastructure Lacks Clarity, Criteria, and Accountability. [GAO-05-261](#). Washington, D.C.: April 8, 2005.