



Statement before the House Committee on Oversight and Government Reform
On the US Postal Service's Performance and Financial Condition

Addressing the US Postal Service's Performance and Financial Condition

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Chairperson Carolyn Maloney and Ranking Member James Comer, thank you for inviting me to testify on the subject of the US Postal Service before the House Oversight and Government Reform Committee.

As you no doubt know, I have been studying the US Postal Service (USPS) for a long time. I was a nonpartisan analyst at the Congressional Research Service from 2003 to 2014 and was the agency's lead on postal issues for most of that period. My first report on the USPS focused on the blue ribbon postal reform commission appointed by President George W. Bush.¹ During my time in the private sector, I have continued writing about the USPS and its challenges.²

I welcome this opportunity to share my thoughts with the committee.

As last year demonstrated, the USPS is an essential public service. Americans trapped at home relied on it to deliver both parcels and absentee ballots. And this is to say nothing of the billions of other pieces of mail the USPS delivered, everything from catalogs to jury summons to prescription drugs to income tax paperwork (W-2s and such). The agency has been around for more than two centuries and is embedded in American life. While Americans may grip about standing in line at post offices and laugh at caricatures such as Cliff Clavin and Newman, overall they think quite highly of the agency.³ In the middle of 2020, Gallup found it was the nation's most popular federal agency.⁴ This is unsurprising to longtime watchers of the USPS; the agency tends to stay out of the headlines and operates quietly in the background. Thanks to its self-funding model, the average American pays taxes to support the USPS and receives mail free of charge. The cost of mail delivery is born by ratepayers—those who send mail.

Unfortunately, last year some troubles with the Postal Service found their way into the headlines. In many instances, the media coverage was inaccurate or treated standard operating procedures (e.g., the removal of blue letter collection boxes and excess mail sorting machinery) as existential threats to the agency and democracy that had been unleashed by nefarious actors.⁵ Social media, regrettably, amplified these inaccurate narratives.⁶ The USPS's leadership and the administration contributed to the confusion by failing to respond promptly and clearly as to what they were doing and why.⁷

But other troubles were real. The agency's delivery performance began to slip, which elicited a great deal of anxiety from Americans who were waiting on deliveries and feared that their absentee ballots would not arrive. Thankfully, the November election was not hurt by the USPS's performance. The agency delivered the record number of election materials with sufficient dispatch.⁸ There is no evidence the election results in any state were hurt by the USPS.

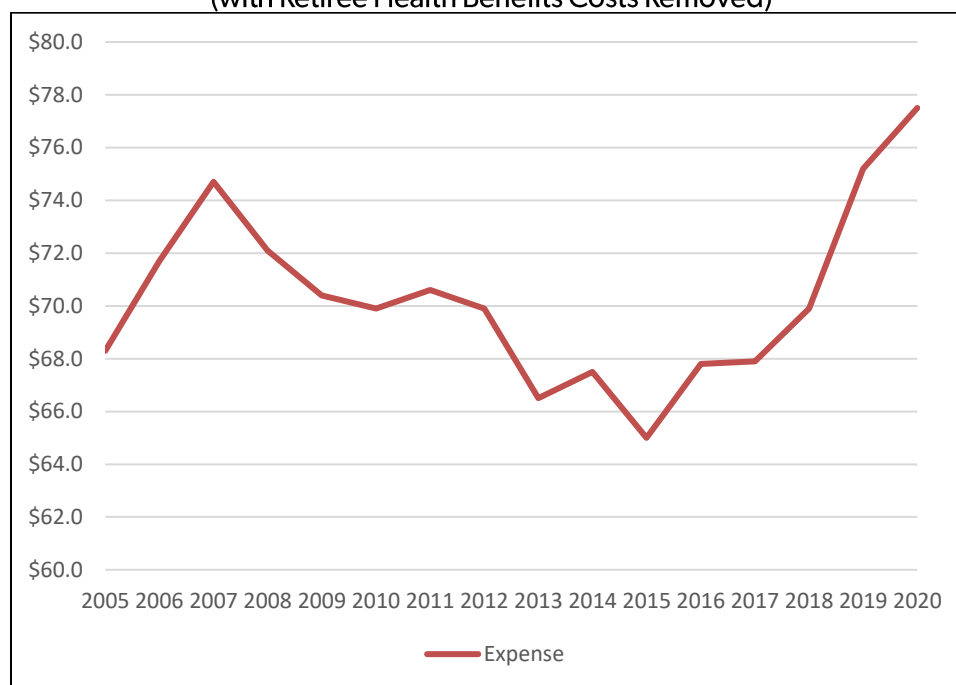
The holiday season, sadly, laid bare an operational problem and a financial problem. The Postal Service's on-time delivery rates plunged, as the agency found itself swamped by packages and its workforce depleted by COVID-19. And the agency reported a fiscal year (FY) 2020 deficit of \$9.1 billion (\$4.4 billion with the retiree health benefits cost removed).⁹ Despite the immense volume increase over the holidays, the agency managed to eke out a FY2021, first quarter profit of a little over \$300 million.

The remainder of my testimony addresses the USPS's recent performance shortfalls and its deficits.

USPS Performance

There appears to be much confusion about why the USPS's delivery performance flagged in the second half of 2020. Some recent media reports continue to point to "cost-cutting" by the agency as a factor and purported cuts to employee overtime. Yet the USPS's costs actually increased in FY2020 to their highest level ever (Figure 1), and employee overtime did not decrease.¹⁰

Figure 1. USPS Operating Costs
(with Retiree Health Benefits Costs Removed)



Source: Data assembled by the author from USPS annual Form 10-Ks.

For its part, the agency has cited delays as being caused by logistics network disruptions from COVID-19 (including workforce depletions) and a 25 percent surge in parcel volumes during the holiday season.¹¹

It would seem valuable to have the US Postal Service inspector general undertake an analysis of what factors have affected delivery and the relative weight thereof. Doing this would clarify whether the delivery slowdowns were caused by factors mostly endogenous or exogenous to USPS decision-making.¹²

Furthermore, the Postal Service's reticence to release more timely data concerning its performance fed the anxieties this past year. News agencies struggled to access delivery performance data and often had to turn to private vendors to understand which mail classes were moving at what speeds.¹³

The Postal Service is a government agency serving a public purpose. The public and media deserve performance data that are more current than the quarterly reporting provided on the USPS's website, which is not especially user-friendly.¹⁴ The USPS most certainly does have these data, as it released them when forced to do so by federal courts, the Senate Homeland Security and Governmental Affairs Committee, and a request filed via the Postal Regulatory Commission.¹⁵

I would encourage Congress to urge the USPS to create a user-friendly, public-facing dashboard with timely performance data for all mail classes and an additional dashboard that would provide trend-line data on the agency's network rationalization efforts. Ideally, the agency would promptly set up these interfaces of its own accord. Compliance with this directive, however, could be achieved through either an authorizing statute or adding a rider to the annual USPS appropriation.

USPS Deficits

In assessing the state of the USPS's finances, here's the good news: The agency had \$15 billion in cash at the end of the first quarter of FY2021, which is more than it has had in at least 15 years.¹⁶

Thus, there is no need to be concerned with the agency facing a liquidity crisis and forced shutdown any time soon.

Additionally, while the agency has \$15 billion in debt, this burden may be alleviated this year. The Consolidated Appropriations Act, 2021, enacted in late December allows the USPS to borrow an additional \$10 billion from the US Treasury that it need not repay.¹⁷ Presumably, that would enable to agency to use some portion of that \$10 billion in taxpayer dollars to reduce its existing debt.

Positive aspects noted, the USPS does face real financial challenges. In thinking about them, it is helpful to consider them as falling in two categories: unfunded obligations and operational deficits.

Unfunded Obligations. Setting aside the aforementioned agency borrowing from the US Treasury, the USPS has approximately \$134.6 billion in unfunded obligations. More specifically, the agency's two pensions are underfunded by \$60.1 billion, and its retiree health benefits are short by \$74.5 billion.¹⁸ These numbers appear dire, but the total obligation for the USPS's two pensions is mostly funded (around 85 percent).

The Retiree Health Benefits Fund (RHBF), however, is a more pressing concern. It is about only 35 percent funded.

In thinking about the prefunding of retiree health benefits, keep in mind a few things. First, the USPS has not actually been prefunding its retiree health benefits. The agency has not paid into the RHBF since 2012.¹⁹ Second, the USPS is drawing on the RHBF to pay current retirees' health benefits. Third, while some have advocated that Congress abolish the prefunding of retiree health benefits, it is difficult to see how this would help matters. Yes, the USPS's operational balance sheet would look better since it would not have to include missed payments into the RHBF. But, the obligation would not go away; the Postal Service still needs to pay its retiree health benefits. For perhaps the next 10 years, it can continue to pay these benefits from the RHBF—but then the fund will be empty, according to the Government Accountability Office.²⁰ At that point in time, it seems highly unlikely the Postal Service will be able to reach into its pocket each year and find sufficient funds to pay the benefits. This means either workers will get stiffed or the taxpayers will have to bail out the Postal Service.

One reform that attracted bipartisan attention on Capitol Hill would support the RHBF's growth by enabling the Postal Service to earn a higher investment return.²¹ Currently, the \$40 billion in the RHBF can only be invested in US Treasury bonds, which brought around a 2.6 percent return this past year.²² This reform would allow the USPS to put 25 to 30 percent of the RHBF in the stock market. To avoid cronyism and reckless investments, the investments would be limited to index funds and be overseen by a board modeled on the Thrift Savings Plan board. This approach has been encouraged by the USPS Office of Inspector General, which notes that the current approach of investing the RHBF entirely in Treasuries is actually the *most* risky course of action.²³ (This approach to reducing the RHBF obligation also could be used to ensure USPS pensions are fully funded.)

USPS Operational Deficits. The USPS is a government corporation, which is a "government agency that is established by Congress to provide a market oriented public service and to produce revenues that meet or approximate its expenditures."²⁴ From 1970 to the early 2000s, the USPS's self-funding model was largely successful.

Early in 2007, however, then-Postmaster General John Potter testified before Congress that the agency's business model had been broken by the internet.

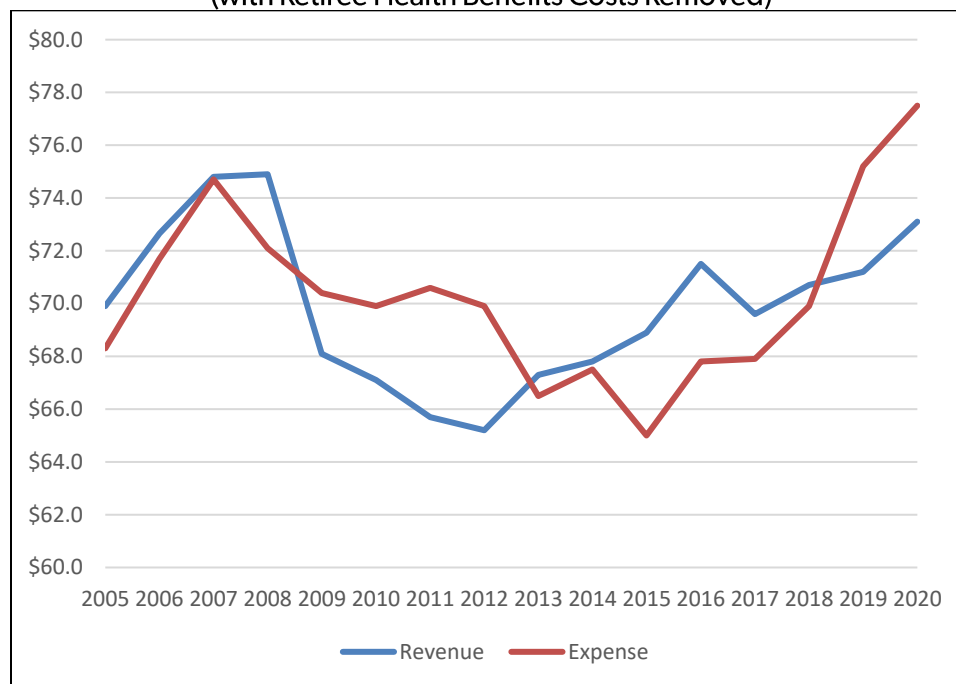
With the diversion of messages and transactions to the internet from the mail, we can no longer depend on printed volume growing at a rate sufficient to produce the revenue needed to cover the costs of an ever expanding delivery network.²⁵

Since 2006, annual mail volume has plunged 39.4 percent.²⁶ As Postmaster General Potter noted,

the USPS faces some built-in upward pressures on its costs, which include a growing number of delivery points and rising compensation costs. (Approximately 75 percent of USPS annual expenses are for compensation—inclusive of retirement benefits.)

Figure 2 shows the USPS's revenues have weakened since 2006 and that the agency has had mixed success in controlling its operating costs relative to its revenues. There are those who say that the USPS's business model would be fine were it not saddled with prefunding its retiree health benefits. In fact, excluding the RHBFB related expenses, the USPS has lost \$6.5 billion since 2005. The FY2020 lost was particularly large, \$4.4 billion, and USPS attributes only \$700 million of that to COVID-19.²⁷

Figure 2. USPS Income and Operating Costs
(with Retiree Health Benefits Costs Removed)



Source: Data assembled by the author from USPS annual Form 10-Ks.

The USPS's revenues have been increasingly dependent on parcels rather than paper mail. This trend of less paper mail and more parcels has accelerated in the past decade. In 2010, USPS earned \$8.7 billion (13 percent) of its revenue from packages; in 2020, USPS reaped \$28 billion (almost 39 percent) of its revenue from parcels.

This shift in lines of business is creating challenges for the USPS: Its current sortation network and truck fleet was designed to carry paper mail, not parcels. Additionally, the USPS repeatedly has warned that parcel volume is not guaranteed to continue rising—and might well fall. Some of the companies that most heavily use the USPS to deliver parcels (e.g., Amazon) are building their own delivery networks, and the parcel delivery market is quite competitive.²⁸

As Congress considers how to address the USPS operational deficits, it must address both the revenue and expense sides of the ledger.

Regarding revenues, the future is anything but obvious. There is little reason to expect paper mail volume to increase, and it may well decline further. What occurs to volume and revenues will be affected to some degree by the new ratemaking regime.²⁹ Parcel volumes and revenues shot up in 2020 due to increased online shopping driven by COVID-19. As the nation moves toward

reopening, presumably consumers will return to making more purchases in person and parcel volume will ebb in 2021 and 2022. All told, one might reasonably expect USPS revenues to slide in 2021 and 2022. Congress would benefit from consulting with the USPS, the Postal Regulatory Commission, and the private industry to get their projections on what USPS revenue might be over the next decade.

And I would caution Congress to be wary of proposals to grow the agency's revenue by getting it into banking or new lines of business. For one matter, the bipartisan 2006 Postal Accountability and Enhancement Act mandated the USPS stick to being a provider of postal service because the agency had a poor record in its nonpostal ventures.³⁰ For another matter, there likely is no nonpostal business where the USPS could enter it and reap sufficient profits to make a significant improvement to its bottom line—including banking.³¹ That said, the agency should explore ways to extract additional value from its daily operations.³²

Regarding the agency's costs, Congress should permit the USPS to reduce paper mail delivery from six to five days per week—except during the month preceding a national election.³³ This six-day delivery requirement was not something put in the Postal Reform Act of 1970, which reformed the old Post Office into the self-funding US Postal Service. Studies done some years back indicate cutting a day of mail delivery could trim \$1 billion or more in USPS costs annually.³⁴

The post office also might be able to trim costs were the agency to offer 100,000 of the most senior employees \$50,000 buyouts tax-free. This would entail a short-term outlay (\$5 billion) but could reap long-term savings by shifting higher-compensated workers into retirement and replacing them with new and less expensive employees.

Finally, the USPS may be able to curb some long-term compensation costs by making a small change to the statutory collective bargaining process. When management and labor cannot reach an agreement, a mediator is empowered to make a decision. Congress could require the mediator to consider the USPS's financial health in rendering a decision. The late Sen. Tom Coburn (R-OK) advocated this reform many years ago. This might gently bend the USPS's cost curve over the long run.

Thank you for the opportunity to testify, and I would be happy to respond to any of your questions.

Notes

¹ Kevin R. Kosar, “The Legislative Recommendations of the President’s Commission on the United States Postal Service,” Congressional Research Service, October 10, 2003, <http://kevinrkosar.com/The%20Legislative%20Recommendations%20of%20the%20President's%20Commission%20on%20the%20United%20States%20Postal%20Service%20CRS%20Report%20RS21640%20.pdf>.

² For example, see Kevin R. Kosar and Daniel J. Richardson, “The U.S. Postal Service’s Ghost Ship Board,” R Street Institute, February 9, 2016, https://www.rstreet.org/wp-content/uploads/2016/02/RSTREET51_2016.pdf; and Kevin R. Kosar, “Separating Myth from Fact About the Troubles of the Postal Service,” American Enterprise Institute, September 2, 2020, <https://www.aei.org/research-products/report/separating-myth-from-fact-about-the-troubles-of-the-postal-service/>.

³ Steve Johnson, “If You Mess with the Post Office, You’re Messing with Pop Culture,” *Chicago Tribune*, August 20, 2020, <https://www.chicagotribune.com/entertainment/ct-ent-post-office-pop-culture-0820-20200820-uh56bxwvyjd2nkndiphauqvpm-story.html>.

⁴ Lydia Saad, “Postal Service Still Americans’ Favorite Federal Agency,” Gallup, May 13, 2019, <https://news.gallup.com/poll/15370/party-affiliation.aspx>.

⁵ For example, see Summer Meza, “Postal Workers Are Sounding the Alarm as Mail Sorting Machines Are Removed from Processing Facilities,” Yahoo News, August 13, 2020, <https://money.yahoo.com/postal-workers-sounding-alarm-mail-203218629.html?guccounter=1>; and Olivia Rubin, “Photos Appear to Show Mail Sorting Machines in Parts in US Postal Facility,” ABCNews.com, August 19, 2020, <https://abcnews.go.com/Politics/photos-show-mail-sorting-machines-parts-us-postal/story?id=72468917>.

⁶ For example, see Mrs. Krassenstein (@HKrassenstein), “I am creating this thread to show how the Trump administration is literally taking mailboxes off the streets of US cities in order to prevent Americans from voting. Please share this thread,” Twitter, August 16, 2020, 6:59 p.m., <https://twitter.com/HKrassenstein/status/1295133042311401473>.

⁷ A great deal of confusion and duress over sorting machines and mail collection boxes could have been avoided had the US Postal Service (USPS) released trend-line data on its various network rationalization efforts in the regular course of business. The failure to make these data readily available left the public and media largely clueless as to these matters and played a role in the ensuing hullabaloo.

⁸ US Postal Service, “2020 Post-Election Analysis: Delivering the Nation’s Election Mail in an Extraordinary Year,” December 28, 2020, https://about.usps.com/newsroom/national-releases/2020/USPS_PostElectionAnalysis_12_28_20.pdf.

⁹ US Postal Service, “Form 10-K,” November 13, 2020, 10, 19, <https://about.usps.com/what/financials/10k-reports/fy2020.pdf>.

¹⁰ Jacob Bogage and Kevin Schaul, “Biden Inherited a USPS Crisis. Here’s How Democrats Want to Fix It.,” *Washington Post*, February 6, 2021, <https://www.washingtonpost.com/graphics/2021/business/usps-performance-whats-next-biden/>; and Postal Regulatory Commission, “Chairman’s Information Request 6,” October 29, 2019, <https://www.prc.gov/dockets/document/110842>.

¹¹ US Postal Service, “U.S. Postal Service Reports First Quarter Fiscal 2021 Results,” February 9, 2021, <https://about.usps.com/newsroom/national-releases/2021/0209-usps-reports-first-quarter-fiscal-2021-results.htm>.

¹² The inspector general released a report in October looking at USPS’s summer 2020 policy changes and resultant performance. A report that examined the whole of 2020 would be desirable. US Postal Service Office of Inspector General, “Deployment of Operational Changes,” November 6, 2020, <https://www.uspsoig.gov/sites/default/files/document-library-files/2020/21-014-R21.pdf>.

¹³ For example, see Emily Badger, Quoctrung Bui, and Margot Sanger-Katz, “The Times Has Been Tracking Delays in Mail Delivery. Last Week Was One of the Slowest to Date.,” *New York Times*, November 2, 2020, <https://www.nytimes.com/2020/11/02/us/politics/the-times-has-been-tracking-delays-in-mail-delivery-last-week-was-one-of-the-slowest-to-date.html>.

¹⁴ See US Postal Service, “About,” https://about.usps.com/what/performance/service-performance/historical_trends/index.html.

¹⁵ Jory Heckman, “Federal Judge Orders USPS to Tell Employees Operational Changes Remain Blocked,” Federal News Network, October 29, 2020, <https://federalnewsnetwork.com/agency-oversight/2020/10/federal-judge->

[orders-usps-to-tell-employees-operational-changes-remain-blocked/](#); Gary Peters, “USPS Oversight Update,” US Senate Committee on Homeland Security and Governmental Affairs, October 9, 2020, https://www.hsgac.senate.gov/imo/media/doc/201009_HSGACOversightUpdate_SeptemberPostalPerformance.pdf; and Steve Hutkins, “Motion for Issuance of Information Request, No. 3,” Postal Regulatory Commission, August 21, 2020, https://www.prc.gov/docs/114/114309/Hutkins_Motion_Service_Performance.pdf.

¹⁶ US Postal Service, “Form 10-Q, FY2021, Quarter 1,” February 8, 2021, 4,

<https://about.usps.com/what/financials/financial-conditions-results-reports/fy2021-q1.pdf>.

¹⁷ Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, <https://www.congress.gov/bill/116th-congress/house-bill/133/text/enr>.

¹⁸ US Postal Service, “Form 10-K,” 36, 40.

¹⁹ US Postal Service, “Form 10-K,” 8.

²⁰ If the agency happens to have cash on hand, it may be able to pay the benefits out of pocket for a few years. Government Accountability Office, “Postal Retiree Health Benefits: Unsustainable Finances Need to Be Addressed,” August 2018, <https://www.gao.gov/assets/700/694188.pdf>.

²¹ See, for example, Postal Service Financial Improvement Act of 2019, H.R. 2553, 116th Cong., 1st sess., <https://www.congress.gov/bill/116th-congress/house-bill/2553>.

²² US Postal Service, “Form 10-K,” 41; and US Treasury, “Monthly Treasury Statement,” January 2021, 30, <https://fiscal.treasury.gov/files/reports-statements/mts/mts0121.pdf>.

²³ US Postal Service Office of Inspector General, “Postal Service Retiree Funds Investment Strategies,” September 20, 2017, <https://www.uspsoig.gov/sites/default/files/document-library-files/2017/FT-WP-17-001.pdf>.

²⁴ Presently, 17 federal government corporations exist, including the Tennessee Valley Authority and the Federal Deposit Insurance Corporation. Kevin R. Kosar, “Federal Government Corporations: An Overview,” Congressional Research Service, June 8, 2011, <https://www.everycrsreport.com/reports/RL30365.html>.

²⁵ *The U.S. Postal Service: 101*, 110th Cong., 14 (2007) (statement of John E. Potter, postmaster general of US Postal Service). This pronouncement came just four months after the enactment of the 2006 Postal Accountability and Enhancement Act.

²⁶ Mail volume was 213,138 billion in fiscal year (FY) 2006 and 129,171 billion in FY2020. See US Postal Service, “Form 10-Q,” <https://about.usps.com/what/financials/financial-conditions-results-reports/fy2021-q1.pdf>.

²⁷ US Postal Service, “Form 10-K,” 21.

²⁸ US Postal Service, “Form 10-K,” 12.

²⁹ The Postal Regulatory Commission recently announced a significant adjustment to the pricing system for market-dominant products. Postal Regulatory Commission, “PRC Adopts Final Rules to Modify the Rate System for Classes of Market Dominant Products,” press release, November 30, 2020, <https://www.prc.gov/press-releases/prc-adopts-final-rules-modify-rate-system-classes-market-dominant-products/5013>.

³⁰ Kevin R. Kosar, Postal Reform, Congressional Research Service, January 3, 2007, pp. 8-9, https://www.everycrsreport.com/files/20070103_RL33618_f92ef073a3f5f81f66c7b0020cfbe57f264d8ced.pdf.

³¹ Kevin R. Kosar, “Return to sender,” Weekly Standard, June 22, 2015, <https://www.washingtonexaminer.com/weekly-standard/return-to-sender-969654>.

³² For example, see Michael J. Ravnitzky, “Offering Sensor Network Services Using the Postal Delivery Vehicle Fleet,” Postal Regulatory Commission, 2007, https://www.prc.gov/sites/default/files/papers/Ravnitzky%20Postal%20Sensors%20Paper%20070910-MJR-1_1191.pdf.

³³ The USPS should remain free to continue delivering parcels on weekends so long as they are profitable.

³⁴ Wendy Ginsberg, “The U.S. Postal Service and Six-Day Delivery: History, Issues, and Current Legislation,” Congressional Research service, October 17, 2012, <https://crsreports.congress.gov/product/pdf/R/R40626>.