

The Postal Service's financial condition is a business-model problem: Recommendations to put universal service on a sustainable footing

Statement for the Record

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The views expressed here are my own and do not reflect the views of the Brookings Institution or anyone affiliated with the Brookings Institution other than myself.

Chairman Sessions, Ranking Member Mfume, and Members of the Subcommittee:

Thank you for the opportunity to submit this statement for the record. My research at the Brookings Institution examines the U.S. Postal Service (USPS) as a problem of public finance and institutional design. This statement draws on that work — a financial primer on the Postal Service's fiscal condition and current and ongoing companion studies of its pension obligations, delivery network, rural small-business role, and mail-order pharmacy access. The views expressed here are my own.

The Postal Service's financial condition is often debated as a domestic story of congressional mandates or management decisions. It is better understood as the most important national instance of a global structural shift, driven by two forces at once. Across high-income economies, letter volumes have fallen by 50% to 90% as communication moved online, eroding the high-margin revenue that long financed universal delivery. At the same time, the rise of e-commerce has made fast, affordable parcel delivery a backbone of the modern economy, even as the revenue model built for letters has broken down.

In 2025 alone, that pressure forced a wave of government intervention abroad: Denmark's national operator ended traditional nationwide letter delivery, the United Kingdom scaled back Royal Mail's delivery standards, Canada ordered millions of door-to-door addresses converted to community mailboxes, and the European Commission opened a reform of the EU's postal law. Every one of these countries has faced the same two questions: what public value does universal mail service generate, and how should that value be financed? With one of the world's largest delivery networks, and as a leader in the global economy, the United States should address these questions deliberately, rather than let the cash crisis now underway dictate the answer.

The financial problem is more structural than operational

The Postal Service's financial crisis reflects a structural mismatch between what Congress requires it to do and how Congress allows it to be financed. The Postal Reorganization Act of 1970 made USPS largely self-sustaining, expected to cover its costs from postage rather than appropriations, and relied on its longstanding letter-mail monopoly as the financing mechanism. For decades, high-margin letter mail generated enough surplus to underwrite the cost of serving the entire country. That arrangement no longer holds.

That revenue base has permanently eroded. Since 2007, First-Class Mail volume has fallen by nearly 56% and total mail volume by nearly 49%, a permanent technological substitution rather than a temporary downturn, since the broader economy grew over the same period. Package growth has held total revenue roughly flat, but parcels compete at thinner margins and generate less surplus to sustain a network built to reach every address. As a result, USPS has posted an operating loss every year since 2007.

At the heart of the arrangement is the universal service obligation (USO): the requirement to deliver to every address at uniform, affordable rates. This is not a modern administrative rule but the Postal Service's founding purpose, dating to 1775; today it means reaching all 169 million of the nation's addresses six days a week. According to the Postal Regulatory Commission (PRC), the value of the postal monopoly has fallen short of the cost of meeting the USO every year since at least 2019, by roughly \$0.7 billion to \$3.1 billion. That persistent shortfall is the mismatch made concrete: the monopoly Congress relied on to finance universal service no longer covers it.

Critically, the deficit does not come from the day-to-day work of moving the mail. In 2025, USPS reported an operating margin of about -11.4%; excluding its retirement obligations, that margin was roughly +1.4%. Almost the entire reported loss is the cost of those obligations — principally pension charges set by the Office of Personnel Management (OPM), not postal management, which USPS, unlike other federal agencies, must pay from operating revenue rather than appropriations. The work of delivering to 169 million addresses roughly covers its costs; the legacy obligations stacked on top of it do not.

But roughly covering costs is not financial health. A near-break-even operation generates almost nothing to reinvest in the aging fleet and facilities the Delivering for America plan was meant to modernize, so USPS faces two structural drains at once: legacy obligations it cannot control, and revenue too thin to fund its own renewal. It has covered both by drawing down cash.

Those reserves are nearly gone. USPS ended FY2025 with about \$8.2 billion in cash, roughly one month of operations, and leadership has warned it could run out within a year. It has been at or near its \$15 billion statutory borrowing ceiling, set in 1992 and never adjusted, since 2012, and it cannot tap private capital markets. That leaves one lever to preserve cash: not paying the retiree obligations it owes. USPS did this throughout the 2010s, defaulting on billions in required payments, and it has begun again. But deferral is no remedy; it conserves cash only by letting the unfunded liability grow, buying time while USPS waits for the one actor that can resolve the mismatch — Congress.

Recommendations to resolve the financial condition

Because the Postal Service's financial position is defined by statute, the most consequential reforms must come from Congress. Operational changes, such as consolidating facilities, optimizing transportation, and redesigning the network for parcels, can improve efficiency, but they are not merely a question of cost: they affect service quality and the reach of universal service, fall under the PRC's review, and can degrade service for the rural and low-density communities that depend on the mail most. Nor can they, on their own, close a gap embedded in federal law. The recommendations below begin with the reform Congress has deferred for half a century, funding universal service directly, then turn to the pension, capital, and pricing changes that follow.

1. Fund universal service as national infrastructure. Congress should provide the Postal Service an annual appropriation equal to the full cost of the USO as determined by the PRC. Each year's appropriation would reimburse the prior year's measured cost, so that the FY2027 appropriation covers the obligation incurred in FY2026.

This reform corrects the mismatch at the root of the Postal Service's finances. The postal network is shared national infrastructure whose value accrues to the broader economy, not to the Postal Service's own balance sheet. This is why a self-funding model cannot sustain it, and why the monopoly that once paid for the USO no longer covers its cost.

The network is the backbone of a parcel and e-commerce economy serving households and businesses alike, reaching rural and remote addresses that private carriers serve only at a premium, if at all, and that even UPS, FedEx, and Amazon rely on the Postal Service to reach. It carries the prescriptions, payments, and official documents many households depend on, and legal and administrative systems rely on it to deliver those documents and to establish when they were sent, from ballots and tax filings to court records and benefit appeals. My research finds that communities with less postal access have measurably lower small-business activity, and that roughly 3.7 million Medicare-eligible Americans live where limited pharmacy access, heavy reliance on mail-order medication, and exposure to postal restructuring overlap.

Several features make this design durable. It uses a figure an independent regulator already produces; it is formulaic, limiting the annual discretion through which appropriations acquire conditions and political strings — a risk for an institution the 1970 reorganization meant to keep out of politics; and it funds measured cost, not a forecast. With the mandate funded this way, the Postal Service's monopoly revenue would no longer be stretched to cover it. Competitors may object that this strengthens USPS in the markets where they compete, but preventing the monopoly from subsidizing competitive products is already the PRC's statutory job, and the appropriation leaves that discipline intact. The one tradeoff is timing: USPS would carry the cost for about a year before reimbursement, which is why the capital and borrowing reforms below are a necessary complement.

2. Fund the pension obligations federally, not from postal revenue. Congress should move the Postal Service's pension costs to the federal side of the ledger, both the liabilities already accumulated and the cost of benefits earned from here on, rather than continuing to fund them from postage. For the existing shortfall of more than \$100 billion in unfunded Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) obligations, that

means the Treasury assuming and amortizing the liability, as it does for other federal agencies. Going forward, it means funding USPS's pension costs on the same basis as the rest of the federal workforce, so they no longer compete with the cost of running the mail.

These are federal obligations in all but name. They were created by Congress, and their size is set by OPM under federal retirement law, but USPS controls none of the actuarial assumptions, discount rates, or amortization schedules that determine the bill. The CSRS obligations in particular trace to the era before 1971, when postal employees were federal workers in a cabinet department rather than employees of a self-funding Postal Service. Yet USPS, alone among major federal employers, must fund these costs from operating revenue rather than appropriations; as that revenue has eroded, the result is the defaults and compounding shortfall described earlier. Moving the obligations to the federal ledger does not create a new cost so much as acknowledge one that already exists: the government will bear these liabilities regardless, and recognizing that explicitly stops them from growing and frees postal revenue for postal operations.

Two steps would make the transfer more accurate. Congress should stop charging USPS for pension benefits its employees earned before 1971, when they were ordinary federal workers rather than employees of a self-funding Postal Service; and it should direct OPM to measure the remaining obligation using the postal workforce's own data rather than government-wide averages, which the Postal Service's Inspector General estimates would reduce it by roughly \$10 billion. Right-sizing the obligation before the federal government assumes it ensures taxpayers absorb only what is genuinely owed. Together with the appropriation above, this removes the second of the two structural drains: the legacy and ongoing benefit costs USPS can neither control nor fund from a shrinking revenue base.

3. Lift the frozen borrowing cap so the Postal Service can modernize. Congress should raise the Postal Service's \$15 billion borrowing limit and index it going forward. Set in 1992 and never adjusted, the cap is the only external financing USPS has because it cannot issue bonds or raise equity. USPS has been at or near that limit since 2012. At a minimum, the limit should be brought up to date: simply adjusting the 1992 figure for inflation would more than double it, to roughly \$36 billion in today's dollars. Tying it to inflation and the growth in delivery points would ensure that it keeps pace going forward.

4. Preserve the regulator that keeps universal service affordable. Congress should preserve the Postal Regulatory Commission and the rate regulation it administers, rather than weaken or eliminate them in the name of financial relief. The Commission is sometimes portrayed as red tape an agency in crisis can no longer afford, or as a body whose job is done. Neither is right: independent regulation is integral to the universal service obligation itself, and removing it would not fix the Postal Service's finances.

Affordability is part of the universal service obligation, not separate from it. The mandate is to serve every address at uniform and affordable rates, and a regulator that reviews prices is how that affordability is enforced. As the Postal Service's own Inspector General observes, absent that public-service framework a carrier would have every incentive to deliver less often, pull back from remote areas, and concentrate on its most profitable customers. The users with the fewest alternatives, such as rural households, small businesses, and older Americans, are precisely those a purely commercial pricing model would serve worst. Independent price

regulation is not unique to the post, either; comparable oversight governs pricing in other regulated sectors for the same reason.

The same regulator protects the Postal Service's competitors: because the Commission reviews both monopoly and competitive prices, it ensures that revenue from protected products does not subsidize the packages USPS sells against private carriers. Most fundamentally, rate regulation is not the cause of the Postal Service's financial condition, which is structural; the first three recommendations address that condition directly. Removing the Commission or deregulating prices would not close the gap between the cost of universal service and the revenue to fund it; it would simply shift the burden onto the customers least able to bear it, while removing the oversight that keeps the system fair.

Guardrails

These reforms are meant to put universal service on a sustainable footing, not to underwrite decline or relieve the Postal Service of discipline. Three principles should accompany them. First, federal funding must not become a lever to narrow the universal service obligation; the purpose of funding the USO is to preserve it, not to pair support with pressure to cut delivery frequency or abandon rural routes. Second, that support should fund the public mandate and the network's modernization, not operating losses; keeping each form of support tied to a defined purpose, a measured USO cost and identified capital investment, is the practical safeguard, even if money is ultimately fungible. Third, the burden of reform should not fall on those least able to bear it: the rural households and businesses, older Americans, and remote communities most dependent on the mail are precisely those who would absorb the cost of higher prices or thinner service, and reforms should be weighed against that distributional test, not only against the balance sheet.

Accountability

Accountability for these reforms is built into their design. The universal-service appropriation is not an open-ended grant; it reimburses the USO cost as estimated each year by the PRC, an independent body, so Congress would pay a measured figure the Postal Service does not set for itself. Right-sizing the pension liability before the federal government assumes it serves the same end on the other side of the ledger: taxpayers absorb only what is genuinely owed. Beyond that, the Postal Service is already among the most closely overseen entities in government. The PRC reviews its prices and service, and the Government Accountability Office and an independent Inspector General audit its operations and finances, with results made public. That oversight, preserved rather than dismantled, is the accountability backstop these reforms require.

The choice before Congress

The Postal Service's financial crisis is not a failure of management, and it cannot be managed away. It is the predictable result of requiring a single institution to fund a public mandate, and obligations it does not control, from a commercial revenue base that has shrunk for two decades. Every advanced economy faces the same pressure, and most have retrenched under duress, treating universal service as a cost to be trimmed. But that universal reach is precisely the public good worth preserving: a network the market would not build on its own, yet one that businesses depend on at every scale, from rural storefronts to the national carriers like UPS, FedEx, and

Amazon that rely on it to complete their own deliveries, and the only affordable way millions of households receive medicine, benefits, and time-sensitive mail. The United States can still choose deliberately, to fund that mandate rather than ration it. The reforms recommended here would resolve the structural mismatch at its source: funding universal service directly, moving the legacy pension obligations to the federal government, restoring access to capital, and preserving independent regulation. The choice is whether to recognize universal mail service for what it already is, a piece of national infrastructure, and fund it explicitly, or to let a liquidity crisis narrow the network by default, at the expense of the communities that depend on it most.

I welcome the opportunity to serve as a resource to the Subcommittee as it considers these questions.

References and related research

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