THE UNITED STATES POSTAL SERVICE

# Delivers the facts

**The United States Postal Service** provides the nation with a vital delivery platform that enables American commerce, serves every American business and address, and binds the nation together — as it has for more than 240 years. The Postal Service is a self-funding entity. **We pay for our operations entirely through the sale of postal products and services and do not receive tax revenues to support our operations. We are a $69.7 billion business.** We have an independent board of directors (called Governors), who are presidentially appointed. If we were a private sector company, the Postal Service would rank 38th in the 2017 Fortune 500.

The secure, reliable, affordable and universal delivery of mail and packages to America's homes and businesses is our core function. We provide this fundamental service to people and businesses of the United States — only the Postal Service meets this essential need of the American public. In fiscal year 2017, the Postal Service **delivered 149 billion pieces of mail** to **157 million delivery addresses, and operated more than 31,000 Post Offices.** We served more than 44 million rural addresses, and for much of rural America we are often the only delivery option. Our Post Offices and employees play an integral role in every American community, and we are a vital conduit to the national and global marketplace.

We are a responsible employer providing stable, middle-class jobs throughout the country. With 644,000 employees as of Sept. 30, 2017, we are the second largest civilian employer in the United States, and one of the largest civilian employers of U.S. veterans. We employ more than 88,000 military veterans.

We are an **engine of economic growth** supporting the marketing and communication needs of America's companies by delivering bills, statements and a wide range of marketing materials that connect businesses with consumers. To companies in nearly every economic sector — including retail, health care, real estate, and financial services — we are a strategic and closely aligned business partner. We are a major part of the nation's financial infrastructure, facilitating millions of transactions daily for virtually every commercial entity in America.

We deliver more e-commerce packages to American homes than any other shipper. Our unrivaled network and infrastructure enable America's e-commerce and will facilitate its future growth.

The relationship between the mailing and shipping industry and the Postal Service is one of the nation's oldest and most effective **partnerships with the private sector.** The Postal Service's highly integrated supply chain leverages strong partnerships with private companies — many of which are small businesses. And consumers can purchase our products and services in more than 72,000 commercial locations through partnerships with retailers of all sizes.

The Postal Service continually adapts to a dynamic marketplace. We operate an extensive and integrated retail, transportation, processing and delivery network to serve residential and commercial customers.

We have three major **lines of business**: First-Class Mail, Marketing Mail, and Packages. In 2017, First-Class Mail produced $25.6 billion in revenue, largely made up of transactional mail, payments, bills and statements; Marketing Mail's revenue was $16.6 billion, largely composed of advertising mail; and Package revenue totaled $19.5 billion.


Within the last 10 years our total mail volume has dropped significantly. Since fiscal year 2008, total mail volume has declined by 26 percent.

First-Class Mail, our most profitable product, has declined by 35 percent since 2008 and is expected to continue to decline as a result of the increase in online transactions and other digital communications.

First-Class Mail, Marketing Mail, and Periodicals are the major categories of Market-Dominant mail. Altogether, Market-Dominant mail accounted for approximately 70 percent of total revenue in 2017. These products are subject to a strict price cap[1] tied to changes in the Consumer Price Index, restricting our ability to generate revenue.

Our Package business accounts for the remainder of our revenue, and we compete for customers with other package delivery providers in the open market. Package products must cover their costs and are therefore subject to a price floor. In addition, by law, the competitive portion of these products as a whole must contribute at least 5.5 percent toward institutional costs to help fund our universal service obligation[2]. In fact, they contribute far more than 5.5 percent and this level of contribution is currently under review by the Postal Regulatory Commission[3].

In response to changes in our marketplace and within the constraints of our existing business model, we have taken **aggressive management action** to right-size our network and infrastructure. We pursued an aggressive agenda of cost cutting, efficiency improvements and targeted innovation that resulted in approximately $13.4 billion in annual savings through 2017. We achieved these savings by consolidating 363 mail processing facilities and 29,000 delivery routes; modifying retail hours at more than 13,000 Post Offices; reducing our total workforce size by more than 152,000 through attrition; negotiating contracts that control wages and benefits and increase workforce flexibility; and through reductions in administrative overhead.

We have posted controllable income[4] totaling $2.4 billion over the last 4 years. However, the Postal Service has suffered 11 consecutive years of net losses, and since 2012 has been forced to default on $38.2 billion in mandated payments to the Treasury Department for retiree health benefits. Without these defaults, the deferral of capital investments, and the aggressive management actions described, we would not have been able to pay our employees, our suppliers, or deliver the mail.

Even with continued aggressive management actions, absent legislative and regulatory reform, the current Postal Service business model is unsustainable: we cannot generate enough revenue to pay all of our bills and will likely be forced to default on a range of mandated obligations[5].

In March 2017, the House Committee on Oversight and Government Reform passed bi-partisan H.R. 756. This **postal reform legislation — which reflects significant effort from postal leadership to educate our stakeholders and explore common interests — is broadly supported** by postal management, many in the mailing industry, and the postal unions. The provisions of H.R. 756 reflect private sector best practices, consistent with our responsibilities to the public. They include:

- Requiring full Medicare integration for parts A, B and D for postal retiree health plans.
- Restoring half our exigent price increase for Market-Dominant products.
- Calculating all retirement benefit liabilities using postal-specific salary growth and demographic assumptions.
- Providing some additional product flexibility.

In the U.S. Senate, S. 2629, the Postal Service Reform Act of 2018, was introduced earlier this year. We look forward to working with both the House and the Senate to advance legislation that provides essential reforms to will improve the financial condition of the Postal Service, allowing us to continue meeting America's mailing and shipping needs.

Also on the public policy front, the President established a Task Force on the United States Postal System in April of 2018. Congress structured the Postal Service to pay for our universal retail, processing and delivery network entirely through the sale of high-quality mail and package products and services, without receiving any tax revenues to support operations. To ensure that we can continue to provide prompt, reliable and efficient universal postal services in a self-sufficient fashion in today's increasingly digital world, fundamental statutory reforms to the structure under which we are required to operation are needed.

As we have repeatedly stressed, these business model problems are serious, but solvable, and the President's executive order establishing the task force provides an opportunity to further consider these important public policy issues. An open and transparent review process in which the perspectives of all stakeholders are fully represented to develop reform proposals could benefit American businesses and consumers.

While these recommendations are being developed and then considered by the President and Congress, it remains necessary to put the Postal Service on firmer financial footing through immediate legislative and regulatory reform. We therefore continue to urge Congress to enact the pending postal reform legislation, and the Postal Regulatory Commission to replace the current price cap on our mailing products. We will continue to aggressively manage our business, and to serve the American public.

Footnotes:

[1] Price Cap — We operate under a fixed statutory price cap that applies to the mail products that generate 70 percent of total revenue. Reduced mail volume and the constraints of our statutory price cap means there is less revenue to pay for our required and increasingly expensive network and other costs imposed upon us by law.

[2] Universal Service Obligation — This legal mandate requires us to maintain an expansive retail, transportation, processing and delivery network, so that we can serve every address six days a week. The cost of the network continues to grow as the country adds approximately 1 million delivery addresses each year. Additionally, total mail volume has declined from 213 billion pieces in 2006 to 149 billion pieces last fiscal year, and projections are that volume will continue to decline. Simply put, we deliver less mail to more addresses every year.

[3] As required by law, the Postal Regulatory Commission must conduct a review of the price system for Market-Dominant products every 10 years and for the competitive products, this review must be conducted every five years. That review is currently under way.

[4] Controllable income or loss is a non-Generally Accepted Accounting Principles (GAAP) measure that excludes items we cannot control, such as actuarial revaluation and amortization expenses for retiree health, Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) benefits, workers' compensation expenses caused by actuarial revaluation and discount rate changes, and adjustments for non-recurring items, such as the changes in accounting estimates for Deferred revenue-prepaid postage. Controllable (loss) income should not be considered a substitute for net (loss) income and other GAAP reporting measures.

[5] The Postal Service is legally required to participate in U.S. government pension programs and participates in the U.S. government health benefits program as mandated by its collective bargaining agreements, and is legally required to fully fund its obligations to each. In 2017, we were unable to pay $6.9 billion in normal cost and amortization payments for retiree health benefits, CSRS and FERS.