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 $70 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 39th in the 2016 *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 2016, the men and women of the Postal Service **delivered 154 billion pieces of mail to 156 million delivery addresses, and operated more than 31,000 Post Offices**. We served 43 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 640,000 employees, we are the second largest civilian employer in the United States, and the largest civilian employer of U.S. veterans. We employ 113,000 military veterans, who comprise 18 percent of our workforce.

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 2016, First-Class Mail produced $27 billion in revenue largely comprised of transactional mail, payments, bills, and statements; Marketing Mail's revenue was $18 billion, largely composed of advertising mail; and Package revenue totaled $17 billion.

Like most companies, our business was severely impacted by the Great Recession. Since fiscal year 2007, total mail volume has declined by 27 percent.

First-Class Mail — our most profitable product has declined by 36 percent since 2007 and is expected to continue to decline as a result of the increase in online transactions and other digital communications.

Following a steep volume drop due to the recession, Marketing Mail has remained relatively stable as businesses continue to see a strong return on their investment in the mail.

Market Dominant mail classes, which include First-Class Mail, Marketing Mail, and Periodicals, as well as some smaller products and services, account for approximately 3/4 of total revenue. These products are subject to a strict price cap[1] tied to changes in the Consumer Price Index (CPI), 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]. 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 rightsize our network and infrastructure. We pursued an aggressive agenda of cost cutting, efficiency improvements, and targeted innovation that resulted in approximately $14 billion in annual savings. We achieved these annual savings by consolidating 360 mail processing facilities and 20,000 delivery routes; modifying retail hours at more than 13,000 Post Offices; reducing our total workforce size by more than 150,000 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 $3.2 billion over the last 3 years. However, the Postal Service has suffered 10 consecutive years of net losses, and since 2012 has been forced to default on $33.9 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 may be forced to default on a range of mandated obligations[5].

In March 2017, the House Committee on Oversight and Government Reform by an overwhelming vote, approved a bi-partisan HR 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 HR 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.

Enactment of these provisions would resolve some of the significant long-term financial burdens on the organization with potential to generate total savings of $26 billion over 5 years.

Three things are required to get the Postal Service on a path to economic sustainability. First, we need swift enactment of the legislation currently in the House of Representatives. Second, the Postal Service needs more pricing flexibility which can be obtained through a successful result in the PRC's 10-year review. Finally, the Postal Service will continue its efforts to aggressively manage the business by reducing costs, increasing efficiency and generating new revenue while providing first-rate service to the American public. **Our current financial situation is serious, but solvable**.

Footnotes:

1 Price Cap — We operate under a fixed statutory price cap that applies to all Market Dominant products and services. 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 — requirement 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 154 billion pieces last fiscal year, and projections are that mail 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 10 years after the enactment of the Postal Accountability and Enhancement Act (PAEA). For competitive products, a review of price floor must be conducted every five years. Both reviews are currently under way.

4 Controllable income is a non-Generally Accepted Accounting Principles (GAAP) measure that excludes the mandated lump-sum retiree health benefits prefunding, and non-cash actuarial adjustments to our workers' compensation and Federal Employees Retirement System (FERS) liabilities over which management has little or no control and adjustments for non-recurring items such as change in accounting estimate. Controllable income is more reflective of operating performance than net income, due to the outsized effects of these mandated and uncontrollable expenses (for example, the unaffordable requirement to prefund Retiree Health Benefits).

5 Legally Mandated Costs — The Postal Service is also legally required to participate in U.S. government pension, health, and benefits programs. By law, we have been required to fund Retiree Health Benefits using an onerous and unaffordable accelerated prefunding payment schedule, which is unique to the Postal Service.