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# U.S. Postal Service Reports Fiscal Year 2017 First Quarter Results

*Passage of postal reform legislation in new Congress urgently needed*

**WASHINGTON** -- Excluding the effects of a $1.7 billion change in its workers' compensation liability due to fluctuations in interest rates, the U.S. Postal Service posted a net loss of approximately $200 million for the first quarter of fiscal year 2017 (October 1, 2016 - December 31, 2016).

Controllable income for the quarter was $522 million compared to $1.3 billion for the same period last year, a decrease of $735 million. Operating revenue decreased by $155 million, and was significantly impacted by the April 2016 expiration of the exigent surcharge. If the exigent surcharge had remained in place, the Postal Service would have generated approximately $570 million in additional revenue during the quarter.

The first quarter, which includes the holiday mailing season, is typically the Postal Service's strongest quarter of the fiscal year. The Postal Service processed and delivered a record volume of packages during the 2016 holiday season, and for the entire quarter, the Shipping and Packages business experienced revenue growth of $701 million, or 14.7 percent over the same period in the prior year.

However, this positive development in the Shipping and Packages business was offset by a decline in First-Class Mail revenue of $568 million, or 7.5 percent, due largely to the exigent surcharge expiration noted above and continuing electronic migration. Revenue from Standard Mail (renamed USPS Marketing Mail, as of January 22, 2017) decreased approximately $224 million over the prior year quarter, again due mainly to the loss of the exigent surcharge. Volume increased in political and election mail, but there was a shift in the mail mix and volume declines in other Marketing Mail products. (See *Selected FY 2017 First Quarter Results of Operations* table below).

Overall, the Postal Service continues to operate within an unsustainable business model because of mandated costs such as an unaffordable retiree health benefits program that is not fully integrated with Medicare, and an ineffective pricing system.

"Our current financial situation is serious, but solvable," said Postmaster General and CEO Megan J. Brennan. "With legislation that contains broadly supported provisions to improve our business model, the Postal Service can generate total savings of $26 billion over the next five years. When combined with a favorable outcome of the recently initiated 10-year pricing system review by the Postal Regulatory Commission and continued aggressive management actions, the Postal Service would return to financial stability."

Operating expenses decreased in the first quarter compared to the same period last year. Offsetting the $1.3 billion and $927 million declines in retiree health benefits and workers' compensation expenses, respectively, compensation and benefits expenses increased by approximately $654 million and, transportation costs increased by $146 million. The growth in labor and transportation costs is largely due to the increase in Shipping and Packages volumes, which are more labor-intensive to process and require greater transportation capacity than mail. Transportation costs also increased to continue the significant improvement in service levels.

"Despite the loss of revenue from the expiration of the exigent surcharge and continued effects of electronic migration on First-Class Mail revenue, we continue to believe there is strength in the postal system, and that there is a path forward for us to return to financial health," said Chief Financial Officer and Executive Vice President Joseph Corbett. "However, the Postal Service's return to long-term financial stability is only possible when our continuing actions to improve efficiency, reduce costs and expand our use of technology are combined with our proposed legislative and regulatory reforms that together will enable us to continue to meet our universal service obligations and invest in the future of the Postal Service and the mailing industry as a whole."

**FY 2017 First Quarter Revenue and Volume by Service Category Compared to Last Year**

The following presents revenue and volume by category for the three months ended December 31, 2016, and 2015:

| *(revenue in $ millions; volume in millions of pieces)* | Revenue 2016 | Revenue 2015 | Volume 2016 | Volume 2015 |
|---|---|---|---|---|
| **Service Category** | | | | |
| First-Class Mail | $ 6,988 | $ 7,556 | 15,880 | 16,426 |
| Standard Mail (Marketing Mail) | 4,693 | 4,917 | 22,355 | 22,075 |
| Shipping and Packages | 5,456 | 4,755 | 1,608 | 1,448 |
| International | 766 | 792 | 285 | 298 |
| Periodicals | 361 | 409 | 1,370 | 1,466 |
| Other | 928 | 918 | 104 | 191 |
| **Total revenue and volume** | **$ 19,192** | **$ 19,347** | **41,602** | **41,904** |

**FY 2017 Changes in Funding for Retiree Health Benefits**

As referenced above, the Postal Service's first quarter retiree health benefits expense declined by $1.3 billion compared to the same period last year. This was primarily due to changes in the Postal Service's funding of retiree health benefits that are to take effect in 2017 according to law.

In accordance with the *Postal Accountability and Enhancement Act* (PAEA), beginning in 2017, the Postal Service Retiree Health Benefits Fund (PSRHBF) is to be used to fund the Postal Service’s share of retiree health benefit premiums. Additionally, Office of Personnel Management (OPM) will determine the amount of annual payments the Postal Service will need to make to amortize the PSRHBF unfunded liability. Based on a preliminary estimate of the unfunded liability provided by OPM, the Postal Service estimates that the amortization payments for the unfunded liability will be $907 million annually, and the Postal Service has accrued $227 million in the first quarter for this payment. OPM is not required to determine such amount until June 30, 2017; accordingly, the amount of the annual expense is subject to change.

The Postal Service is also obligated to begin paying the normal costs of retiree health benefits attributable to the service of Postal Service employees during the most recently ended fiscal year, which the OPM estimates is approximately $2.9 billion for the Postal Service's fiscal year 2017.

The following table details retiree health benefits expenses, including the changes that are taking effect in fiscal year 2017, for the three months ended December 31, 2016, and 2015:

| *(in millions)* | 2016 | 2015 |
|---|---|---|
| Amortization of PSRHBF unfunded liability[1,5] | $ 227 | $ — |
| PSRHBF prefunding fixed amount[2,5] | — | 1,450 |
| Normal cost of retiree health benefits[3] | 742 | — |
| Retiree health benefits premiums[4] | — | 792 |
| **Total retiree health benefits expense** | **$ 969** | **$ 2,242** |

[1] Accrual for one quarter of the estimated $907 million annual payment, as determined by the Postal Service based on OPM’s preliminary estimate of the remaining $18.2 billion PSRHBF unfunded liability as calculated based on OPM’s preliminary valuation of the PSRHBF funded status as of September 30, 2016.

[2] Accrual for one quarter of the $5.8 billion annual prefunding payment to be paid into the PSRHBF due September 30, 2016.

[3] Accrual for one quarter of the estimated $2.9 billion annual payment based on OPM’s estimate of actuarially-determined normal cost of retiree health benefits for current employees to be paid into the PSRHBF.

[4] Expense for one quarter of the amount the Postal Service was billed for its share of retiree health benefit premiums for annuitants by OPM. Beginning in 2017, the PSRHBF is to be used to fund the Postal Service’s share of retiree health benefit premiums.

[5] The Postal Service remains obligated to fund the $33.9 billion in PSRHBF prefunding payments that it has defaulted on for the years 2012 through 2016. It is anticipated that OPM will also establish a payment schedule as of June 30, 2017 to liquidate this liability that could include a progress payment due in 2017.

**Selected FY 2017 First Quarter Results of Operations**
This news release references *operating revenue before the temporary exigent surcharge*, which is not calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP).

The following table reconciles these non-GAAP operating revenue calculations with GAAP net income for the three months ended December 31, 2016, and 2015:

| *(results in $ millions)* | 2016 | 2015 |
|---|---|---|
| **Operating revenue** | | |
| Operating revenue before temporary exigent surcharge | $ 19,192 | $ 18,777 |
| Temporary exigent surcharge* | — | 570 |
| **Total operating revenue** | **$ 19,192** | **$ 19,347** |
| Other revenue | 9 | 12 |
| **Total revenue** | **$ 19,201** | **$ 19,359** |
| **Total operating expenses** | **$ 17,716** | **$ 19,002** |
| Interest and investment income (expense), net | (47) | (50) |
| **Net income** | **$ 1,438** | **$ 307** |

* The temporary exigent surcharge expired on April 10, 2016.

**Controllable Income**
This news release references *controllable income*, which is not calculated and presented in accordance with GAAP. Controllable income is a non-GAAP financial measure defined as net income adjusted for items outside of management's control. These adjustments include workers' compensation expenses caused by actuarial revaluation and discount rate changes, PSRHBF prefunding expenses and the amortization of PSRHBF, CSRS and FERS unfunded liabilities.

The following table reconciles the Postal Service's GAAP net income of $1.4 billion for the quarter to controllable income and illustrates the income from ongoing business activities without the impact of non-controllable items for the three months ended December 31, 2016, and 2015:

| *(in $ millions)* | 2016 | 2015 |
|---|---|---|
| **Net income** | **$ 1,438** | **$ 307** |
| Amortization of PSRHBF prefunding liability[1] | 227 | — |
| PSRHBF prefunding fixed amount[2] | — | 1,450 |
| CSRS supplemental unfunded liabilities expense[3] | 308 | — |
| FERS supplemental unfunded liabilities expense[4] | 62 | 60 |
| Change in workers' compensation liability due to fluctuations in discount rates | (1,670) | (402) |
| Other change in workers' compensation liability[5] | 157 | (158) |
| **Controllable income** | **$ 522** | **$ 1,257** |

[1] Accrual for one quarter of the estimated $907 million annual payment, as determined by the Postal Service based on OPM's preliminary estimate of the remaining $18.2 billion PSRHBF unfunded liability as calculated based on OPM's preliminary valuation of the PSRHBF funded status as of September 30, 2016.

[2] Accrual for one quarter of the $5.8 billion annual prefunding payment to be paid into the PSRHBF due September 30, 2016.

[3] Accrual for OPM's estimated payment amount, based on actuarial valuations and assumptions, to amortize the $16.7 billion unfunded CSRS retirement obligation as of September 30, 2015. Payments are to be made in equal installments beginning as soon as 2017, through 2043.

[4] Amounts represent one quarter of the accrual for the payment amount, based on actuarial valuations and assumptions, to amortize the $3.8 billion unfunded FERS retirement obligation as of September 30, 2015, as determined by OPM. Payments are to be made in equal installments through 2046.

[5] Net amounts include changes in assumptions, as well as the valuation of new claims and revaluation of existing claims, less current year claim payments.

Complete financial results are available in the Form 10-Q, available at [http://about.usps.com/who-we-are/financials/welcome.htm](http://about.usps.com/who-we-are/financials/welcome.htm).

The briefing will also be available on live audio webcast (listen only) at:
*http://about.usps.com/news/electronic-press-kits/cfo/welcome.htm.*

The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

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