

# 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 \$71 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 40th in the 2018 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 2018, the Postal Service **delivered 146 billion pieces of mail to 159 million delivery addresses, and operated more than 31,000 Post Offices.** We served more than 45 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 more than 630,000 employees, 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 100,000 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 2018, First-Class Mail produced \$25 billion in revenue, largely made up of transactional mail, payments, bills and statements; Marketing Mail's revenue was \$16.5 billion, largely composed of advertising mail; and Package revenue totaled \$21 billion.

Within the last 12 years **our total mail volume has dropped significantly.** Since fiscal year 2007, total mail volume has declined by 31 percent.

First-Class Mail, our most profitable product, has declined by 41 percent since 2007 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 2018. These products are subject to a strict price cap<sup>1</sup> tied to changes in the Consumer Price Index, restricting our ability to generate revenue.

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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, today the competitive portion of these products as a whole must also contribute toward institutional costs to help fund our universal service obligation.<sup>2</sup> In 2018, this minimum percentage was 5.5 percent. Beginning in 2019, the PRC replaced the fixed percentage with a formula-based approach. This level of contribution is currently under review by the Postal Regulatory Commission, as required by law every five years.<sup>3</sup>

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. 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 150,000 through attrition; negotiating contracts that control wages and benefits and increase workforce flexibility; and through reductions in administrative overhead.

However, the Postal Service has suffered 12 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.<sup>4</sup>

The Postal Service has therefore been pursuing legislative reform to address its business model problems, a process that has included significant efforts from postal leadership to educate all stakeholders and to explore common interests.

In 2017 and again in 2018, legislation that would

assist the Postal Service in regaining financial health was introduced in both the House and the Senate, gaining the broad support of many in the mailing industry and the postal unions.

The first bill, which passed out of the House Committee on Oversight and Government Reform in March 2017, established provisions reflecting private sector best practices that would also allow the Postal Service to continue to meet its responsibilities to the public. They include:

- Requiring full Medicare integration for parts A, B and D for postal retiree health plans.
- Restoring half of the exigent price increase for Market-Dominant products.
- Providing some additional product flexibility.

Similar legislation was introduced in the Senate in March 2018, and the original House bill was reintroduced in June 2018 with minor technical changes. As of the convening of the 116th Congress on Jan. 3, 2019, there was no further action on either bill.

Also on the public policy front, the Task Force on the United States Postal System, established by the President in April 2018, issued its report in December. The report recognizes the important role of the Postal Service to the U.S. economy and the American people, particularly those in rural areas. While the report did not propose a change to the Postal Service's basic status, it did propose administrative and legislative reforms to improve financial sustainability.

As we have repeatedly stressed, **the problems facing the Postal Service are serious, but solvable**, and the task force's report has provided 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 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.

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#### Footnotes:

<sup>1</sup> Price Cap — We operate under a fixed statutory price cap that applies to our Market-Dominant products. Reduced mail volume and statutory price cap constraints mean there is less revenue to pay for our required and increasingly expensive network and other costs imposed upon us by law.

<sup>2</sup> 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 1.2 million delivery addresses each year. Additionally, total mail volume has declined from 213 billion pieces in 2006 to 146 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.

<sup>3</sup> The Postal Regulatory Commission must conduct a review of the price system for Market-Dominant products every 10 years and for competitive products, this review must be conducted every five years.

<sup>4</sup> 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.