



Fiscal Year 2021
Integrated Financial Plan
United States Postal Service

EXECUTIVE SUMMARY

Fiscal Year (FY) 2020 was full of unprecedented challenges for the Postal Service, including the COVID-19 pandemic and resulting economic shutdown, wildfires throughout much of the western U.S., an extremely active 2020 hurricane season and an unprecedented reliance on the mail to inform voters and deliver ballots. Nonetheless, the Postal Service continued to deliver its essential services through all these challenges and reported a better-than-planned 2020 controllable loss of \$3.8 billion. The net loss for the year was \$9.2 billion. Our Annual Report on Form 10-K, which was filed with the Postal

Statement of Operations		
In Billions	FY2020 Actual	FY2021 Plan
Revenue	\$ 73.2	\$ 70.9
Controllable Expenses ^{1,2}	<u>77.0</u>	<u>76.5</u>
Controllable Income ^{1,2}	\$ (3.8)	\$ (5.6)
RHB Normal Cost Actuarial Revaluation & Amortization ^{3,4}	(0.7)	(0.9)
Workers' Comp. Fair Value and Other Non-Cash Adj.	(1.6)	-
FERS Unfunded Liabilities Amortization ³	(1.3)	(1.4)
CSRS Unfunded Liabilities Amortization ³	<u>(1.8)</u>	<u>(1.8)</u>
Net Loss	\$ (9.2)	\$ (9.7)
Mail Volume (Pieces)	129.2	116.0

1. Before Retiree Health Benefits (RHB) amortization and actuarial changes to RHB normal cost, Federal Employee Retirement System (FERS) and Civil Service Retirement System (CSRS) unfunded liability amortization, and non-cash adjustments to workers' compensation liabilities.
2. The RHB normal cost for 2020 totaled \$3.8B, of which \$4.0B was considered controllable. Controllable expenses for 2020 include only the portion that was estimated based on information from OPM prior to the issuance of the FY2020 IFP.
3. This represents the amortization expense related to the FERS, CSRS, and Postal Service Retiree Health Benefit Fund liabilities. These are based on the invoices from OPM.

Regulatory Commission (PRC) on November 13, 2020, contains a detailed analysis of the 2020 financial results and provides a baseline for understanding our projected 2021 results.

The 2021 Integrated Financial Plan (IFP) anticipates continued financial challenges for the Postal Service, as package volumes are expected to begin to decline relative to the pandemic-driven volume surge in the second half of 2020, while declines in mail volume continue and costs escalate. This is projected to result in a controllable loss of \$5.6 billion and a net loss of \$9.7 billion in 2021.

Revenue is projected to decline by \$2.3 billion in 2021. This decrease is driven primarily by Market-Dominant volumes, which are expected to decline by over 12 billion pieces. Market-Dominant revenues are also expected to fall, as price increases capped at CPI are insufficient to offset continuing volume losses.

Controllable expenses in 2021 are expected to decrease by \$0.5 billion (0.6 percent) due to aggressive work hour reductions. This expense reduction will occur in spite of a \$0.3 billion increase in contributions for Federal Employees Retirement Systems (FERS) normal costs mandated by the U.S. Office of Personnel Management (OPM) and continued pandemic-related expenses for transportation and personal protective equipment. Controllable personnel expenses also include normal costs for retiree health benefits, which are estimated to be \$3.9 billion in 2021. Transportation costs are expected to decrease by \$0.1 billion, although this is contingent on the resumption of full capacity commercial air service by mid-year, which will allow us to reduce our dependence on more costly contract carriers. Supplies and services expenses are expected to continue at elevated levels due to additional spending on cleaning and personal protective equipment (PPE) resulting from the pandemic.

Beginning in 2017, the 10-year retiree health benefit (RHB) pre-funding schedule was replaced with a requirement that the Postal Service fund the normal costs of RHB earned by current postal employees, as well as a requirement to make amortization payments to pay down the unfunded liability of the Postal Service Retiree Health Benefits Fund (PSRHBF). These are calculated by OPM. The estimated RHB amortization expense for 2021 is \$0.9 billion. The 2021 amortization expenses to pay down the unfunded liabilities of the Civil Service Retirement System (CSRS) and FERS are estimated by OPM to be \$1.8 billion and \$1.4 billion, respectively. These expenses are not included in controllable expenses because they are highly sensitive to actuarial assumptions outside of our control. For example, a one percent increase in the discount rate applied to the RHB liability would decrease the liability amount by \$15.1 billion and decrease

the annual amortization payment by \$0.7 billion, while a one percent decrease in the rate would increase the liability and amortization payment by \$18.4 billion and \$0.9 billion, respectively. Discount rate changes could also lead to large changes in the actuarial liabilities and amortization expenses associated with CSRS and FERS.

The IFP does not project the non-cash portion of workers' compensation expense, because it is dependent on actuarial assumptions, interest rates, and other factors that are outside of management's control and extremely difficult to predict. For example, a one percent increase in the discount rate would cause a decrease in the September 30, 2020 workers' compensation liability and related expense of approximately \$2.3 billion. Similarly, a one percent decrease in the discount rate would cause an increase in the September 30, 2020 workers' compensation liability and related non-cash fair value expense of approximately \$2.9 billion.

The IFP projects that 2021 work hours will be approximately 21 million lower than in 2020. These work hour reductions will be realized by achieving efficiency improvements in all aspects of processing, delivery, retail, maintenance, and transportation and administrative operations, in order to better align our infrastructure with mail volume declines.

We continue to pursue financial stability through product development and innovation, pricing strategies, improved operational efficiencies, and cost reductions. However, it will also take significant legislative reforms, and additional regulatory pricing flexibility, to eliminate our net losses, re-balance our assets and liabilities and eliminate the accumulated net deficiency.

ECONOMIC ASSUMPTIONS

In developing the IFP, we consider many factors, such as multi-year trends in our product sales (with greater weight on more recent trends), expected market growth or decline, competitive market dynamics, changes in prices and marketing programs, the expected rate of migration of hard-copy mail to digital media, and the expected state of the overall economy. The ongoing effects of the COVID-19 pandemic on the economy as a whole, consumer spending, business investment and employment complicate the picture going forward and greatly increase the level of uncertainty and variability associated with our financial projections.

At the time this plan was developed, the economy was projected to grow slowly and unevenly in 2021, with sectors such as eCommerce growing strongly, while others, such as air travel, lag. Employment, wages and real disposable income, and consumer spending are expected to grow modestly in the wake of the pandemic; however, high levels of unemployment are expected to continue for some time. Economists' estimates of Gross Domestic Product (GDP) growth vary widely; most forecasts do not anticipate that GDP will approach postal quarter (PQ) 1, 2020 levels until about PQ 2, 2022¹. Low inflation, and stable interest rates will have a positive influence on economic growth in 2021. However, much uncertainty revolves around the course of the ongoing pandemic, including the potential for the development and dissemination of a vaccine, which may dictate the timing and pace of the economic recovery for some significant sectors of the economy.

Economic Drivers		
	FY2020 Forecast	FY2021 Forecast
Gross Domestic Product	-3.1%	0.3%
e-Commerce	32.7%	5.1%
Consumer Price Index for All Urban Consumers	1.2%	1.2%
Consumer Price Index for Urban Wage and Clerical Workers	1.1%	1.2%
Employment	-4.2%	0.5%
Investment	-9.5%	-1.3%
Transportation	1.1%	0.0%

Beyond the broad economic factors discussed above, significant business-specific risks remain. Market-Dominant mail volumes continue to decline, as mailers migrate to digital solutions for communication, transactional and advertising needs. Market-Dominant volumes dropped rapidly in the immediate aftermath of the economic shut-downs in the spring of 2020, but recovered somewhat as the year drew to a close, due, in part, to significant growth in political and election mail volume. This growth in political and election mailings will peak in October, which will boost Quarter I, 2021 results. It remains to be seen whether the accelerated rate of Market-Dominant volume decline experienced in the second half of 2020 represents a temporary blip, or portends a permanent step down, reminiscent of the volume decline resulting from the Great Recession when volumes dropped by approximately 20 percent from 2007 - 2010.

The package volume surge that began in April, 2020, is expected to continue into 2021, with an especially demanding holiday season; however competition in package delivery is increasing quickly, with some customers in-sourcing delivery, or experimenting with delivery alternatives, while package delivery competitors seek to improve density within their own delivery networks. These factors will likely dampen volume growth later in the year. By the second half of the fiscal year, package volumes are expected to decline from 2020's elevated levels. This forecast is largely dependent on the course of consumer and business behavior in the wake of the pandemic and whether some of the ecommerce growth witnessed in 2020 returns to traditional retail in 2021.

¹ Wall Street Journal survey of economists, September, 2020.

A. Volume

The 2021 IFP projects total mail and package volume of 116.0 billion pieces, a decline of 13.2 billion pieces, or 10.2 percent, from 2020.

For First-Class Mail, the IFP projects a decline of approximately 3.0 billion pieces, or 5.7 percent, from 2020, reflecting the ongoing migration of communications and transactions out of First-Class Mail into electronic media. The rate of decline is somewhat exacerbated by the effects of the COVID-19 pandemic and the effects of Census and stimulus check mailings in 2020, which bolstered First-Class Mail volumes in that year. Bill and statement volumes are expected to continue their pattern of modest diversion, as customers increasingly accept bills and statements electronically, often on their mobile devices, and often in response to incentives by companies for making the switch. First-Class Mail single-piece volumes are expected to decline more rapidly, continuing a trend that has been evident for a number of years as consumers and businesses find alternatives.

Volume		
Billion pieces	FY2020 Actual	FY2021 Plan
First-Class Mail	52.6	49.6
Marketing Mail	64.2	54.7
Periodicals	4.0	3.6
Shipping and Packages	7.3	7.2
International	0.7	0.5
Other	0.4	0.4
Total Volume	129.2	116.0

USPS Marketing Mail volume is expected to decline about 9.5 billion pieces compared to 2020, despite an expected 1.3 billion piece increase in political and election mail in October 2020. The remaining decrease is primarily due to increased competition from electronic media and the ongoing effect of the pandemic. Marketers continue to leverage technology to better target customers and increase their investment in digital advertising at the expense of hard-copy media, and the pandemic appears to have accelerated this trend. The pandemic had an immediate, significant, negative impact on Marketing Mail volumes beginning in mid-March, 2020, although volumes recovered somewhat later in the year, driven by increased volumes of political and election mail. Nonetheless, USPS Marketing Mail continues to provide proven value and return on investment. We intend to continue efforts to further improve the value of USPS Marketing Mail by enhancing it with innovations such as Informed Delivery.

Periodicals volume is expected to decline by approximately 0.4 billion pieces as newspaper and magazine readership continues to migrate to online media, a trend that appears to have accelerated in 2020.

Shipping and Packages volume is expected to decline by 0.1 billion pieces, or 1.4 percent, to 7.2 billion pieces in 2021. The surge in volume generated by the pandemic is anticipated to dissipate in 2021, with volumes for most categories of packages elevated relative to pre-pandemic levels, but lower than their peak in Q3, FY 2020. Volume will also be dampened by increased competition and price increases. First-Class Package Service is expected to continue to show modest growth in 2020, driven by consistent, reliable service and price competitiveness, while Priority Mail and Parcel Select (last mile) volumes are expected to decline due primarily to increased competition and previously announced insourcing strategies by large users of Parcel Select.

International volume is expected to decline by about 0.2 billion pieces, or 31 percent, in FY2021, largely due to the effects of higher, self-declared, rates for Inbound Letter Post small packages that were implemented in July 2020.

B. Revenue

Revenue in 2021 is expected to decrease by \$2.3 billion compared to 2020. This 3.2 percent decrease is driven primarily by the declines in Market-Dominant mail volume discussed on the previous page. The prices of Market-Dominant products and services are set to increase by approximately 1.5 percent, and the prices of Competitive products and services are expected to increase by an average of approximately 3.8 percent in January 2021.

The continuing decline in mail volume is expected to result in \$3.0 billion less revenue from Market-Dominant products in 2021 than in 2020, as our CPI-capped price increases do not generate enough additional revenue to offset the volume decline. First-Class Mail and Periodicals revenues are expected to decline by \$1.1 billion. USPS Marketing Mail revenue is expected to decline by \$1.9 billion, due to lower volume.

The continued growth in eCommerce coupled with a 3.8 percent average price increase is expected to generate an additional \$0.7 billion in revenues from Shipping and Packages in 2021. Shipping and packages is an increasingly important component of total Postal Service revenues, and is expected to account for approximately 41 percent of total revenues in 2021. However, as noted previously, Shipping and Packages products are subject to intense competition.

International mail revenues are expected to decline by \$0.2 billion. However, as with volume, there is considerable uncertainty with International revenue, as USPS self-declared rates started in July 2020 for Inbound Letter Post small packages. In addition, the COVID-19 pandemic is expected to continue to impact international commerce in 2021.

Other revenue is expected to increase by about \$0.2 billion, primarily as a result of price increases.

Revenue		
In Billions	FY2020 Actual	FY2021 Plan
First-Class Mail	\$ 23.8	\$ 22.8
Marketing Mail	13.9	12.0
Periodicals	1.0	0.9
Shipping and Packages	28.5	29.2
International	2.4	2.2
Other	3.6	3.8
Total Revenue	\$ 73.2	\$ 70.9

2021 OPERATING PLAN – WORK HOURS & EXPENSES

The 2021 IFP projects total work hours of 1,153 million, a reduction of 21 million compared to 2020, driven by initiatives to improve efficiency and better work hour and complement management efforts implemented in response to lower volumes. These improvements will result in total expenses being reduced below 2020 levels, in spite of contractual wage increases, OPM-mandated FERS contribution increases and inflationary cost increases.

Controllable expenses include salaries and employee benefits, transportation and non-personnel expenses such as rent and utilities and supplies and services. They do not include the amortization of the FERS, CSRS, and RHB unfunded liabilities, and any actuarial

adjustments to the RHB normal costs and workers' compensation liability.

Controllable expenses are projected to decrease by \$0.5 billion, or 0.6 percent, in 2021, despite a \$0.3 billion increase in the FERS normal cost, due to higher contribution rates mandated by OPM. Even if planned work hour reductions are achieved, it is possible that increased absenteeism resulting from the pandemic could pressure personnel costs in 2021 by resulting in higher-than-expected overtime or noncareer utilization, as occurred in 2020. Likewise, if package volumes substantially exceed expectations, work hours could increase above planned levels.

Transportation expenses are expected to decrease by \$0.1 billion in 2021. The COVID-19 pandemic has forced us to shift some volume from commercial air carriers to charters, which was the primary driver of the \$0.6 billion increase in 2020 transportation costs. Importantly, the 2021 IFP assumes that commercial air lift capacity will resume full capacity by mid-year; if this is not the case, then it is likely transportation costs will increase above plan. Supplies and services expenses increased by \$0.3 billion in 2020, pressured by unplanned costs for facility cleaning and personal protective equipment to safeguard our employees and customers. Many pandemic-related expenses are expected to continue into 2021, resulting in 2021 supplies and services expenses holding at 2020 levels.

Salaries and benefits expenses are expected to decrease by \$0.5 billion (1.0 percent) in 2020, driven by lower work hours, but partially offset by the FERS normal cost increase of \$0.3 billion, anticipated contractual wage increases and cost of living adjustments, as set forth in our collective bargaining agreements. The addition of an estimated 1.4 million delivery points, compared to 2020 also creates upward pressure on work hours, and therefore to salaries and benefits expense. These cost pressures are offset by the planned efficiency measures expected to result in a 21 million work hour reduction and continued workforce attrition.

Statement of Operations		
In Billions	FY2020 Actual	FY2021 Plan
Salaries and Benefits	\$ 50.0	\$ 49.5
FERS Normal Cost	3.8	4.1
RHB Normal Cost ¹	4.0	3.9
Transportation	8.8	8.7
Depreciation	1.7	1.7
Supplies & Services	3.1	3.1
Rent / Utilities / Other	<u>5.6</u>	<u>5.5</u>
Controllable Expenses ¹	\$ 77.0	\$ 76.5
RHB Normal Cost Actuarial Revaluation & Amortization	0.7	0.9
Workers' Comp. Fair Value and Other Non-Cash Adj.	1.6	-
FERS Unfunded Liabilities Amortization ²	1.3	1.4
CSRS Unfunded Liabilities Amortization ²	<u>1.8</u>	<u>1.8</u>
Total Expenses	\$ 82.4	\$ 80.6

1. Before RHB amortization & actuarial revaluation, non-cash adjustments to workers' compensation liabilities and FERS and CSRS unfunded liabilities amortization, which are excluded from controllable expenses.
2. This represents the OPM amortization expense related to the Federal Employee Retirement System (FERS), Civil Service Retirement System (CSRS), and Postal Service Retiree Health Benefit Fund (PSRHBF) liabilities. These are based on the invoices from OPM.

2021 CAPITAL PLAN

A. Capital Investments - Commitments

The 2021 capital plan calls for capital commitments of \$2.4 billion across four categories. Capital commitments provide a view of future capital obligations that ultimately lead to cash outlays, sometimes over a period of years. For 2021, there are a number of large programs that if approved may require an increase in the capital plan.

Capital Commitments				
In Billions	5 - Year Avg. (2015-2019)	FY2019 Actual	FY2020 Actual	FY2021 IFP
Facilities	\$0.6	\$0.9	\$0.8	\$1.0
Mail Processing Equipment	\$0.4	\$0.4	\$0.2	\$0.7
Vehicles	\$0.4	\$0.5	\$0.5	\$0.2
IT, Postal Support Equipment & Other	\$0.2	\$0.2	\$0.2	\$0.5
Total	\$1.6	\$2.0	\$1.7	\$2.4

Facilities

The 2021 capital commitment plan for facilities is \$1.0 billion and represents approximately 42 percent of the total capital commitment plan. These investments are primarily for building improvements, which include repairs and alterations to aging buildings, and facility modifications that are necessary to accommodate current and future operational needs. In addition, a small portion is for construction and building purchases.

Mail Processing Equipment

The 2021 capital commitment plan for mail processing equipment is \$0.7 billion and represents approximately 29 percent of the total capital commitment plan. These investments are focused on increasing productivity and reducing operating costs through the focused deployment of new equipment, improving existing equipment, or making necessary upgrades due to obsolescence of components. These investments will also support service performance for mailers, shippers and package services customers.

Vehicles

The 2021 capital commitment plan for vehicles is \$0.2 billion or eight percent of the total commitment plan. These vehicle investments will replace existing vehicles that are well past their expected useful lives or where replacement is deemed necessary due to high maintenance costs. These investments will also expand the delivery fleet to cover additional rural routes with Postal Service vehicles. The new vehicles, which will consist primarily of delivery vehicles, will have better fuel efficiency and lower maintenance costs than those that are being replaced, which will result in cost savings.

The first Next Generation Delivery Vehicle (NGDV) production purchase is not included within the \$0.2 billion vehicle plan. The Postal Service anticipates awarding the contract(s) for the production phase of NGDV in FY2021.

Information Technology and Postal Support Equipment

The 2021 capital commitment plan for the information technology (IT) and Postal Support Equipment category is \$0.5 billion, or approximately 21 percent of the total plan. Investments in this category include Cybersecurity-related investments, enhancements to mail scanning and tracking systems, systems updates, as well as upgrades and enhancements to computer hardware, servers, storage systems, and software development.

B. Capital Investments - Cash Outlays

Capital cash outlays are expected to increase by \$0.2 billion compared to 2020, based on the expected timing of 2021 commitments and outlays on previously committed programs. Cash outlays for 2021 are for similar items as described on the prior page for capital commitments.

Capital Cash Outlays				
In Billions	5 - Year Avg. (2015-2019)	FY2019 Actual	FY2020 Actual	FY2021 IFP
Facilities	\$0.5	\$0.6	\$0.9	\$0.7
Mail Processing Equipment	\$0.4	\$0.3	\$0.3	\$0.3
Vehicles	\$0.3	\$0.3	\$0.4	\$0.5
IT, Postal Support Equipment & Other	\$0.2	\$0.2	\$0.2	\$0.5
Total	\$1.4	\$1.4	\$1.8	\$2.0

2021 DEBT LIQUIDITY AND FINANCING PLAN

We ended 2020 with unrestricted cash of \$14.4 billion and \$14.0 billion of debt. Our total theoretical unrestricted liquidity was \$15.4 billion, consisting of the unrestricted cash and \$1.0 billion of available borrowing capacity (as of October 1, 2020) under our statutory debt ceiling of \$15 billion. This level of liquidity was achieved only by defaulting on payments to the CSRS, FERS and RHB funds totaling \$63.4 billion from 2012 through 2020 and by availing ourselves of the opportunity offered under the CARES Act of deferring \$1.2 billion in employer Social Security contributions through September 30, 2020.

In addition to the \$1.0 billion of remaining borrowing authority available under our normal statutory borrowing authority, the CARES Act authorizes the Postal Service to borrow an additional \$10.0 billion from the U.S. Treasury to fund operating expenses. On July 29, 2020, we announced that we had reached an agreement in principle with the U.S. Treasury on the terms and conditions associated with the CARES Act financing. The agreed-upon terms and conditions must be memorialized in loan documents and conditions satisfied before we will have access to the CARES Act borrowing.

In 2021, we have a scheduled debt repayment of \$3.0 billion in April, 2021. The Board of Governors will review our liquidity situation and projections throughout the year and additional borrowing may be authorized as circumstances dictate. This will allow us to maintain sufficient liquidity to fund day-to-day operations and continue to make essential capital investments.

As shown in the table below, the balance sheet shows the effects of 14 consecutive years of net losses; however, our retirement and RHB programs continue to be relatively well-funded, with the CSRS and FERS obligations both approximately 82 percent funded and the RHB program approximately 36 percent funded.

Balance Sheet as of September 30					
<u>Assets</u>			<u>Liabilities</u>		
	<u>2020</u> <u>(projected)</u>	<u>2021</u> <u>(projected)</u>		<u>2020</u> <u>(projected)</u>	<u>2021</u> <u>(projected)</u>
Unrestricted Cash	\$14.4B	\$9.6B	Retirement & Retiree Health Benefits ²	\$63.4B	\$71.5B
Property & Equipment, net	\$14.6B	\$15.0B	Workers' Compensation	\$20.1B	\$20.1B
Other (includes approximately \$0.4B restricted cash)	\$6.9B	\$6.9B	Debt	\$14.0B	\$11.0B
			Accrued Compensation, benefits, and leave ¹	\$4.9B	\$4.9B
			Deferred Revenue ¹	\$2.5B	\$2.5B
			Other ¹	\$11.7B	\$11.6B
			Total Liabilities	\$116.6B	\$121.6B
			Total Net Deficiency (on Balance Sheet)	(\$80.7B)	(\$90.1B)
Total Assets	\$35.9B	\$31.5B	Total Liabilities and Net Deficiency	\$35.9B	\$31.5B

Assets and Liabilities of the FERS, CSRS and PSRHF Fund					
<u>Assets</u>			<u>Liabilities</u>		
	<u>2020</u> <u>(projected)</u>	<u>2021</u> <u>(projected)</u>		<u>2020</u> <u>(projected)</u>	<u>2021</u> <u>(projected)</u>
FERS Fund Balance	\$125.7B	\$130.5B	FERS Actuarial Liability	\$152.6B	\$158.5B
CSRS Fund Balance	\$143.8B	\$137.1B	CSRS Actuarial Liability	\$177.6B	\$172.2B
RHB Fund Balance	\$42.1B	\$39.4B	RHB Actuarial Liability	\$116.6B	\$120.4B
Total Assets ²	\$311.6B	\$307.0B	Total Liabilities ^{2,3}	\$446.8B	\$451.1B
			Total Net Deficiency (FERS, CSRS, RHB)	(\$135.2B)	(\$144.1B)
			Grand Total Net Deficiency	(\$152.5B)	(\$162.7B)

All retirement and RHB assets are accounted for off the balance sheet. The asset numbers reported here do not include past-due payments. Retirement and RHB liabilities are divided into two parts: Those related to past-due payments by USPS, which are on-balance sheet (\$63.4B in 2020 and \$71.4B in 2021) and the remainder of the liability, which is off-balance sheet (\$383.1B in 2020 and \$379.2B in 2021).

Our liquidity position in 2021 will be greatly impacted by the state of the economy, the sustainability of the package volume surge that began in the second half of 2020, and the success of our revenue growth and expense management initiatives. If financial results conform to plan, our year-end 2021 unrestricted cash is estimated to be roughly \$9.6 billion, assuming no new debt is issued and before considering the estimated lump sum payments of approximately \$7.9 billion for CSRS, FERS and RHB due on September 30, 2021. The Board of Governors will decide whether or not to make these year-end payments, based on the facts and circumstances at that time. The year-end cash estimate could also vary up or down by \$300 million depending on cash flow timing differences

Unless there is a fundamental change in our financial condition, we will not have sufficient liquidity to pay down debt, fully fund retirement and RHB obligations, and invest in equipment and technologies to fulfill our statutory mission. We will pursue aggressive management actions, cost reductions, and additional ways to generate revenue in 2021, but will also need legislative and regulatory changes to resolve protracted, structural issues with our pricing and cost structures. Many of the structural reforms needed to ensure long-term viability, such as full integration of RHB with Medicare, can only be achieved with legislative change to our unsustainable business model. It is also necessary for the PRC to confer additional pricing flexibility as part of its 10-year pricing system review, which has been ongoing since 2017.

CONCLUSION

The 2021 IFP reflects the Postal Service's continued efforts to meet its universal service obligations and maintain financial viability, within the limits of current laws and regulations. The IFP projects a \$2.3 billion decline in revenue, primarily due to a decrease in package volume associated with the cycling-out of the pandemic-related surge and the ongoing decline in traditional hard-copy mail. This revenue decline is reflective of a rapidly changing mailing and shipping environment, which requires us to aggressively manage costs by targeting a significant work hour reduction in 2021.

The Postal Service continues to have insufficient liquidity to fulfill its universal service obligations, fully fund all legally-required financial obligations, maintain a margin of safety to deal with contingencies, and make necessary capital investments. Our 2021 controllable loss, as shown on page one, is estimated to be \$5.6 billion and our consolidated balance sheet reflects liabilities that exceed assets by approximately \$163 billion. There are significant risks such as a lengthy and uneven economic recovery, accelerated declines in volumes, and inflation in fuel or wages that could worsen the controllable loss.

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues we face and the legislative and regulatory changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, a financially healthy and stable Postal Service should continue to be a top priority for all stakeholders from legislative and regulatory bodies to management, employees, and customers.