Fiscal Year 2023

Integrated Financial Plan

United States Postal Service

EXECUTIVE SUMMARY

In fiscal year 2022,[1] Net Income (Loss) was $56 billion; without the non-cash impact of the Postal Service Reform Act of 2022 (PSRA) and non-cash adjustments to workers' compensation, Net Income (Loss) would have been ($4.4) billion. This adjusted net loss is $4.0 billion better than the $(8.4) billion net loss planned in the 2022 IFP and better than the net loss of $4.9 billion in 2021. This improvement over the IFP is primarily due to higher revenue than projected and the cancellation of 2022 Retiree Health Benefits (RHB) normal cost and amortization payments by the PSRA.

In addition to net loss, we track controllable loss, a non-GAAP measure, which is calculated by excluding Federal Employee Retirement System (FERS) and Civil Service Retirement System (CSRS) unfunded liability amortization payments and non-cash adjustments to workers' compensation liabilities. In 2022, we also excluded the one-time adjustment of RHB liabilities due to the PSRA. These expenses are highly sensitive to changes in actuarial assumptions and management has little or no control over them in the short term. Controllable loss for 2022 was $0.5 billion, $3.6 billion better than the planned $4.1 billion. We currently plan for a net loss of $4.5 billion and a controllable income of $0.5 billion in 2023.

Revenue is projected to increase by $2.4 billion in 2023. We anticipate that the surge in revenue from consumer behavior changes during the COVID-19 pandemic will continue to subside in 2023; price increases will more than compensate for the revenue lost due to reduced volume.

Controllable expenses in 2023 are planned to increase by $1.4 billion (1.8%). **The biggest contributor to this increase is an expected increase in compensation and benefits expenses due to inflation, despite a planned decrease of 32 million work hours.** Non-personnel expenses are planned to remain relatively flat, due to lower projected inflation and aggressive management actions to cut expenses

FERS and CSRS amortization payments are projected to increase by $0.3 billion and $0.8 billion to $1.9 billion and $3.1 billion, respectively, based on actuarial analysis of the impact of high inflation. The non-cash portion of the workers' compensation expense, or the non-cash change to the workers' compensation liability, depends on actuarial assumptions, interest rates, and other factors that are outside of management's control. We assume no change in these variables, implying a value of zero for the non-cash workers' compensation expense.

As outlined in our 10-year strategic plan, "Delivering for America" (the DFA), we are undertaking ambitious efforts to invest in infrastructure, streamline operations, and create a more efficient, service-oriented network. These multi-year projects are only beginning to pay off; work hours decreased by 10 million compared to the previous year, which is the first year-over-year work hour decrease we have seen since 2014. Until our plan becomes more fully implemented, we will continue to have annual net losses.

The DFA includes a correction of decades of overpayment of CSRS benefits by the USPS portion of the federal CSRS fund. The Post Office Department was a Cabinet department which was dissolved in 1971 and became the current USPS. Since that time, USPS has paid a large portion of the CSRS benefits attributable to employees' years of service in the Post Office Department. According to modern actuarial and accounting standards, a far greater share of these benefits should have been paid by the U.S. Treasury. These decades of overpayment could be corrected by an instruction from the Administration to the Office of Personnel Management. This reform would eliminate CSRS amortization expenses entirely and contribute greatly to our plan for financial stability.

Furthermore, according to existing law, any surplus in the CSRS fund is to be transferred to the RHB fund, with the next transfer in 2025. If USPS were credited for its historical overpayment, there would result a

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[1] Unless otherwise stated, all references to years refer to the postal fiscal year, which runs from October 1 of the preceding calendar year to September 30. References to fiscal quarters refer to quarters of that year.

substantial surplus for CSRS; this surplus, when transferred to the RHB fund, would greatly extend the life of the fund beyond its current projected run-dry date in the early 2030s.

The table below shows our planned 2023 net loss with and without the CSRS reform planned in the DFA:

Statement of Operations			
In Billions	FY2022 Actual	FY2023 Plan	FY2023 Plan w/ CSRS Reform
Total Revenue	$ 78.8	$ 81.2	$ 81.2
Controllable Expenses [1]	79.3	80.7	80.7
Controllable Income [1]	**$ (0.5)**	**$ 0.5**	**$ 0.5**
FERS Unfunded Liabilities Amortization[2]	(1.6)	(1.9)	(1.9)
CSRS Unfunded Liabilities Amortization[2]	(2.3)	(3.1)	-
Net Income (Loss) without Non-Cash Adjustments	**$ (4.4)**	**$ (4.5)**	**$ (1.4)**
PSRA Non-Cash Liability, RHB Amort. And Normal Cost Adj.	57.0	-	-
Workers' comp. Fair Value Adj. and Other Non-Cash Adj.	3.4	-	-
Total Non-Cash Adjustments	$ 60.4	$ -	$ -
Net Income (Loss)[1]	**$ 56.0**	**$ (4.5)**	**$ (1.4)**
Mail Volume (Pieces)	**127.3**	**120.9**	**120.9**

1 - Before CSRS and FERS unfunded liability amortization payments and non-cash adjustments to workers' compensation liabilities.
2 - This represents the OPM amortization expense related to the FERS and CSRS fund liabilities. 2022 actual amounts reflect OPM invoices received in September 2022.

ECONOMIC ASSUMPTIONS

Revenue and expense projections take account of many factors, including multi-year trends in product sales, the impact of increased competition, planned price changes, projected rates of inflation, the expected rate of migration of hard-copy mail to digital media, and the expected state of the economy.

At the time this plan was developed, the economy was projected to tip into a mild recession in 2023, driven by significant slowdowns in the growth of employment, real disposable income, consumer spending, and investments. Unemployment was expected to increase, reflecting declining payrolls and higher participation rates. The elevated rate of inflation reached in 2022 was projected to decelerate in 2023, spurred by an aggressive monetary policy that would raise the Fed Funds rate to almost 5.0% by mid-2023. Real GDP was projected to begin growing again by the second half of 2023.

Total mail volume is expected to decrease in 2023, due to significant business-specific risks. Continued migration of communications into electronic media is expected to result in a decline in First-Class Mail and Periodicals. Despite the influence of 1.5 billion pieces of Political and Election mail during the U.S. midterm election in October 2022 (FY 2023), Marketing Mail volume is expected to decrease as Marketers continue to expand digital advertising at the expense of hard-copy media and the impacts of an economic slowdown are felt.

Package volume is expected to continue to decline in 2023 as consumers return closer to pre-pandemic norms, e-commerce slows, and our competitors aggressively try to take market share. Revenue-generating price increases will also result in decreased volume.

2023 OPERATING PLAN – VOLUME AND REVENUE

A. Volume

The 2023 IFP projects total mail and package volume of 120.9 billion pieces, a decline of 6.4 billion pieces (5.0%) from 2022.

We project a decline for First-Class Mail of approximately 2.5 billion pieces (5.1%), reflecting the ongoing migration of communications and transactions out of First-Class Mail into electronic media. Bill and statement volumes are expected to decline modestly as customers increasingly accept bills and statements electronically, 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 the recent trend of electronic diversion.

Volume

In Billions	FY2022 Actual	FY2023 Plan
First-Class Mail	48.9	46.4
Marketing Mail	67.1	63.6
Periodicals	3.4	3.2
Shipping and Packages	7.2	7.0
International	0.4	0.4
Other	0.3	0.3
Total Volume	**127.3**	**120.9**

USPS Marketing Mail volume is expected to decline about 3.5 billion pieces (5.2%) compared to 2022. Marketers continue to leverage technology to better target customers and increase their investment in digital advertising at the expense of hard-copy media. Volume projections include the impact of midterm elections in early 2023.

Periodicals volume is expected to decline by approximately 0.2 billion pieces (5.2%) as newspaper and magazine readership continues to migrate to online media.

Domestic Shipping and Packages volume is expected to decline by 0.2 billion pieces (2.6%). Package volume projections reflect a continued shift from the pandemic buying levels as the economy opens.

International mail and package volume is expected to remain constant at 0.4 billion pieces.

B. Revenue

Revenue in 2023 is expected to increase by $2.4 billion (3.0%) compared to 2022. This increase is the net impact of price increase for Market Dominant and Competitive products and decreasing volumes. Market dominant price increases use price cap authority based on CPI and the additional price cap authority authorized by the Postal Regulatory Commission. This order added price authority related to our amortization expenses and declining mail density.

Revenue from domestic mail products is expected to increase by $1.3B (3.2%) in 2023 due to price increases, despite volume declines. First-Class Mail revenue is expected to increase by $0.8 billion (3.5%), Marketing Mail revenue is expected to increase by $0.4 billion (2.7%), and Periodicals revenue is expected to increase by about $36 million (3.8%).

Revenue

In Billions	FY2022 Actual	FY2023 Plan
First-Class Mail	$ 24.0	$ 24.9
Marketing Mail	16.0	16.4
Periodicals	1.0	1.0
Shipping and Packages	31.3	31.9
International	1.7	1.8
Other	4.8	5.2
Total Revenue	**$ 78.8**	**$ 81.2**

Domestic shipping and package revenue is an increasingly important component of total revenue and is expected to account for approximately 39% of total revenues in 2023. Revenue from this category is expected to increase by $0.6 billion (1.8%). Package volume loss due to slowdowns in e-commerce and increased competition is offset by price increases and management action.

International mail revenues are expected to increase by about $0.1 billion (4.2%), primarily due to price increases. Revenue from other products and services is expected to increase by about $0.4 billion (8.3%), primarily due to price increases.

2023 OPERATING PLAN – WORK HOURS & EXPENSES

The 2023 IFP projects total work hours of 1,149 million, a reduction of 32 million (2.7%) compared to 2022, driven by initiatives to improve efficiency and by work hour management efforts in response to lower volumes. Controllable expenses are projected to increase by $1.4 billion (1.8%).

Expenses

(in billions)		FY2022 Actual		FY2023 Plan
Salaries and Benefits	$	52.8	$	54.0
FERS Normal Cost		4.5		4.6
RHB Normal Cost		-		-
Transportation		10.3		10.0
Depreciation		1.7		1.8
Supplies & Services		3.2		3.4
Rent / Utilities / Other		6.8		6.9
Controllable Expenses [1]	**$**	**79.3**	**$**	**80.7**
Impact of Postal Service Reform Legislation		57.0		-
Workers' Comp. Fair Value and Other Non-Cash Adj.		(3.4)		-
FERS Unfunded Liabilities Amortization [2]		1.6		1.9
CSRS Unfunded Liabilities Amortization [2]		2.3		3.1
Total Non-Controllable Expenses		57.5		5.0
Total Expenses (excluding Impact of PSRA)	**$**	**79.8**	**$**	**85.7**

1 - Before FERS and CSRS unfunded liability amortization payments and non-cash adjustments to workers' compensation liabilities.
2 - This represents the OPM amortization expense related to the FERS and CSRS fund liabilities. 2022 actual amounts reflect OPM invoices received in September 2022.

Salaries and benefits expenses are projected to increase by $1.2 billion (2.3%), despite the planned reduction in work hours. This is largely due to increased inflation projections, resulting in high cost of living adjustments (COLAs). In 2022, the employees represented by our four largest unions received the highest COLAs since our current pay system has been in place, and the full impact of these COLAs will be felt in 2023. FERS normal cost, which is based to total salaries, is projected to increase by $0.1 billion (2.2%).

Transportation expenses are expected to decrease by $0.3 billion (2.9%) in 2022. In 2022, we experienced dramatic increases in fuel expenses as well as higher-than-planned turnover of surface transportation contracts. The 2023 IFP assumes that commercial air lift usage will be reduced while surface transportation is increased as the shift of volumes from air to surface continues.

Supplies and services expenses in 2022 were in line with plan. Inflationary pressures are expected to continue in 2023. Further, expenses in this category will increase to support the additional capital investments required for the Delivering for America strategic plan (discussed in more detail below). Consequently, we plan for a $0.2 billion (6.3%) increase in supplies and services in 2023.

Rent, utilities, and other expenses are projected to increase by $0.1 billion (1.5%). This is in part to support investments in infrastructure and modernization for the Delivering for America strategic plan. Rents will increase due to the acquisition of additional buildings to process packages more efficiently. Inflationary pressures are also expected to continue impacting these costs, especially for fuel, utilities, and parts.

2023 CAPITAL PLAN

A. Capital Investments - Commitments

The 2023 capital plan calls for capital commitments of $7.4 billion to modernize and improve our mail processing, transport, and delivery system. Capital commitments provide a view of future capital obligations that ultimately lead to cash outlays, often over a period of years.

Capital Commitments

In billions	5 - Year Avg. (2017-2021)	FY2021 Actual	FY2022 Actual	FY2023 IFP
Facilities	$0.7	$0.7	$0.9	$2.9
Processing Equipment	$0.5	$1.0	$0.5	$0.8
Vehicles	$0.4	$0.5	$3.4	$3.1
IT, Postal Support Equipment & Other	$0.2	$0.2	$0.3	$0.6
Total	**$1.8**	**$2.4**	**$5.2**	**$7.4**

Facilities

The planned commitment for facilities is $2.9 billion (39% 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 deficiencies and future operational needs. In addition, funds are included for construction and building purchases.

Processing Equipment

The planned commitment for mail processing equipment is $0.8 billion (11% of plan). These investments are focused on increasing capacity, increasing productivity, and reducing operating costs through the focused deployment of new equipment, improving existing equipment, or upgrading obsolete components. These investments will also support service performance for mailers, shippers, and package services customers.

Vehicles

The planned commitment for vehicles is $3.1 billion (42% of plan). These vehicle investments will replace existing vehicles that are well past their expected useful lives or 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, higher safety standards and lower maintenance costs than those they are replacing, which will result in cost savings and safer vehicles.

Information Technology and Postal Support Equipment

The planned commitment for information technology and Postal support equipment is $0.6 billion (8% of 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. The plan also includes modernization of IT infrastructure, including payroll budget systems and transportation and logistics management.

B. Capital Investments - Cash Outlays

Capital cash outlays are expected to increase by $1.0 billion compared to 2022, based on the expected timing of 2023 commitments and outlays on previously committed programs. Cash outlays for 2023 are for similar items as described on the prior page for capital commitments.

Capital Cash Outlays

In billions	5 - Year Avg. (2017-2021)	FY2021 Actual	FY2022 Actual	FY2023 IFP
Facilities	$0.7	$0.8	$0.6	$1.0
Processing Equipment	$0.4	$0.5	$0.6	$0.2
Vehicles	$0.4	$0.5	$0.4	$1.2
IT, Postal Support Equipment & Other	$0.2	$0.1	$0.2	$0.4
Total	**$1.6**	**$1.9**	**$1.8**	**$2.8**

2023 DEBT LIQUIDITY AND FINANCING PLAN

We ended 2022 with $23.6 billion in cash ($19.7 billion in unrestricted cash, $3.9 billion in restricted cash) and $10.0 billion of debt.

This level of liquidity was achieved by:

- Defaulting on payments to the CSRS, FERS and RHB funds totaling $71.6 billion from 2012 through 2021 (the obligation to make past-due RHB payments of $57 billion was canceled by the PSRA)
- Deferring $1.8 billion in employer Social Security contributions through September 30, 2021, as authorized by the CARES ACT ($887 of which was repaid in December of Calendar Year 2021; the remainder will be repaid in December of Calendar Year 2022)
- $10 billion in funding received under the CARES Act
- $3.0 billion in appropriations under the Inflation Reduction Act of 2022 for the purchase of zero-emission delivery vehicles and for the purchase, design, and installation of the requisite infrastructure to support zero-emission delivery vehicles at facilities that the Postal Service owns or leases from non-Federal entities. This funding is classified as restricted cash.

Despite our balance sheet deficit, our retirement and RHB programs continue to be well-funded compared to the rest of the civilian government.* Our CSRS obligations are 74% funded, compared to 2% for the rest of the government; our FERS obligations are 80% funded, compared to 73% for the rest of the government; and our RHB obligations are 86% funded, while the rest of the government does not pre-fund these obligations at all.

**Retirement and RHB funded data are based on FY 2022 projections for USPS and 2021 for the rest of the Federal government. This is the most recent data available.*

Balance Sheet – September 2022 after Passage of PSRA
Liabilities exceed assets after elimination of duplicate liabilities by ~$80.5B

As of September 30, 2022

Total liabilities, including amounts payable to retirement funds, exceed assets by $16.6B

Assets		Liabilities & Net Deficiency	
Unrestricted Cash	$19.7B	Retirement Benefits	$18.1B
Restricted Cash	$3.9B	Workers' Compensation	$14.7B
Land, Buildings & Equipment, net	$14.9B	Debt	$10.0B
Other Assets	$7.6B	Accrued Compensation, benefits, and leave	$5.6B
		Deferred Revenue	$2.5B
		Other	$11.8B
		Total Liabilities	**$62.7B**
		Total Net Deficiency	**($16.6B)**
Total Assets	**$46.1B**	**Total Liabilities & Net Deficiency**	**$46.1B**

Pension and RHB liabilities exceed assets by $82.0B (as of Sept. 30, 2022)

Assets[1]		Liabilities & Net Deficiency[2]	
CSRS Fund Balance	$125.8B	CSRS Actuarial Liability	$169.0B
FERS Fund Balance	$132.6B	FERS Actuarial Liability	$165.5B
RHB Fund Balance	$35.8B	RHB Actuarial Liability	$41.7B
Total Retirement-Fund Assets	**$294.2B**	**Total Retirement-Related Liabilities**	**$376.2B**
		Unfunded Liabilities (Net Deficiency)	**($82.0B)**
Total Assets	**$294.2B**	**Total Liabilities & Net Deficiency**	**$294.2B**

1 OPM valuation as of September 30, 2022. Balances have been adjusted to reflect that a payment of $500 million was made to FERS in FY 2022 and no payment was made to CSRS.
2 OPM valuation as of September 30, 2022. Does not reflect the impact of COLA increases after that date on CSRS and FERS liability. RHB liability of $41.7B is calculated based on vested employees only, as per the Postal Service Reform Act; if calculated based on all employees, the liability would be $59.5 billion.

Our liquidity position in 2023 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. We estimate our year-end 2023 total cash will be $17.8 billion, assuming no new debt is issued in 2023 and with estimated year-end lump sum payments of approximately $5.0 billion for CSRS and FERS.