UNITED STATES POSTAL SERVICE ®

U.S. Postal Service Pricing

A System for Financial Sustainability and Service Excellence

Why Are Price Changes Necessary?

- **USPS Is Self-Sustaining:** Congress created the Postal Service as a business-like enterprise that covers its operating costs through the sales of postal products. Generally receiving zero tax dollars, the Postal Service must rely solely on the sale of postage, products, and services to fund its day-to-day operations. As Congress intended in writing the law that created it, the Postal Service must evolve as the American economy changes, finding the proper balance of service, cost, and price. Amid long-running declines in core mail volume, price increases are necessary to maintain the revenue to sustain our nation's critical postal infrastructure.

- **Inflation:** Like the rest of the nation, the Postal Service faces increased costs for fuel, transportation, processing, and other raw materials. Additionally, the Postal Service's contracts for employee compensation contain Cost-of-Living Adjustments linked to inflation. As a result, price adjustments are essential to match increased costs.

- **Investments to Address Outdated Infrastructure and Poor Service Performance**: The Postal Service's 10-Year Strategic Plan, Delivering for America, includes a $40 billion investment in core infrastructure. These long overdue investments in a healthier network will improve service reliability and contribute to our goal of meeting or exceeding 95 percent on-time delivery across mail and shipping product classes. Recent service performance scores indicate that we are well on the way to meeting or exceeding these ambitious goals, and pricing flexibility is vital for continued progress.

Who Sets Postage Prices?

Any changes to prices or fees must be approved by the Board of Governors of the United States Postal Service, which functions like a board of directors at a private corporation with members nominated by the President and confirmed by the Senate. Prices and fees are then subject to review by the Postal Regulatory Commission (PRC), an independent agency created by the *Postal Accountability and Enhancement Act of 2006* (PAEA) as a successor to the former Postal Rate Commission. This dual-layered review process ensures compliance with statutory requirements set by Congress and allows for robust public comment.

The Postal Service offers two product categories: "Market Dominant" and "Competitive." Market Dominant products include First-Class Mail, Marketing Mail, and Periodicals, for which there are generally no direct alternatives to the Postal Service. By law, all postal products are expected to cover their attributable costs to ensure fair competition and fair apportionment of costs among mail users. The Postal Service and PRC use a variety of remedial methods to address products that do not cover their attributable costs. However, for years, PAEA capped price increases for each class of Market Dominant products at the Consumer Price Index (CPI), meaning that for well over a decade, the Postal Service was constrained in its ability to respond to a changing market.

In 2020, after nearly four years of review, the PRC completed a holistic review of the Market Dominant ratemaking system, as required by PAEA. The PRC found that the legacy CPI-only price cap failed to meet Congress's objectives and granted the Postal Service additional pricing flexibility above CPI based on additional factors:

- **Delivery Density-Related Cost Increases.** An additional amount reflecting the additional cost to deliver to each address as the number of addresses grows but mail volume declines.
- **Retirement Liabilities.** An additional amount explicitly targeted at reducing the Postal Service's unfunded retirement liabilities.

- **Non-compensatory Mail Classes.** An additional amount for mail classes that do not cover their costs, to reduce the extent to which they are subsidized by other mail users.

Setting the Record Straight: Price Change Facts

In its 2016–2020 review, the PRC found that the legacy CPI-only price cap was a barrier to financial stability, as it forced the Postal Service to suffer 14 years of losses. Nevertheless, the PRC's pricing adjustments focused on incremental, prospective measures and did not reset rates to compensatory levels, let alone offer any compensation for past losses. If the PRC's new density rate adjustment mechanism had been in effect since 2006, we would have generated $55 billion dollars in cumulative gross revenue. It will take years to reverse the devastating impacts of PAEA's pricing system.

The Postal Service is judiciously implementing the new flexibility approved by the PRC. Moreover, the new flexibility has already undergone judicial review and was sustained by the United States Court of Appeals for the District of Columbia Circuit. Nevertheless, many claims have been made about the Postal Service's financial situation and how we would use our new pricing authority.

Claim: The Postal Service Reform Act (PSRA) provided the Postal Service a financial windfall, so the Postal Service doesn't need to inflate prices.

- **Fact:** By itself, the Postal Service Reform Act (PSRA) does not make the Postal Service financially stable. **Over ten years, PSRA will provide approximately a $50 billion dollar offset against a projected $160 billion-dollar 10-year projected loss**. Not only is that offset incomplete, it will also take several years to fully materialize. As the Delivering for America Plan acknowledges, **PSRA is only one piece of the larger plan for necessary cost-saving and revenue-generating initiatives**. Another necessary component of the plan is careful use of the current pricing flexibility. Those measures are not optional substitutes for one another; all of them—including the PSRA and new pricing authorities alike—are necessary to securing the Postal Service's future.

Claim: Mailers are not provided adequate notice of price changes and need more time to adjust.

- **Fact:** The Postal Service provides **90-day notice of all Market Dominant price changes** and **30-day notice of all Competitive price changes**, as required by the PRC.

Claim: The Postal Service is pricing themselves out of business, making mail too expensive.

- **Fact:** Even after this price change is implemented, **Postal Service prices remain among the most affordable in the world**. The average price of the equivalent to one-ounce domestic First-Class Mail Letter postage was $1.23 across foreign posts, as of 2020.

Claim: The Postal Service is depending on price changes instead of making hard business decisions to improve their financial position.

- **Fact:** Our strategic initiatives are multi-faceted and designed to reverse a projected $160 billion in losses over the next ten years. **These changes will touch every part of the Postal Service and include $34 billion from cost improvements related to mail processing, transportation, retail, delivery, and administrative efficiency; and $24 billion in revenue improvement related to package growth and new competitive products.** Price adjustments and operational modernizations will set the Postal Service on a positive trajectory for decades into the future.

$40 billion in new investments
These investments are only possible with increased revenues from price adjustments

$1.9 billion in new revenue
Resulting from the new pricing authority granted in November 2020