



**United States Postal Service**  
**FY2017**  
**Annual**  
**Report to**  
**Congress**

**FY2017 Annual Report**

**FY2017 Comprehensive Statement**

**FY2017 Performance Report and**  
**FY2018 Performance Plan**





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# Report Structure and Purpose

This unified document consists of three reports: 1) the Fiscal Year (FY) 2017 Annual Report, including a statement from the Postmaster General on our<sup>1</sup> operations, 2) the FY2017 Comprehensive Statement on our operations and 3) the FY2017 Annual Performance Report and FY2018 Annual Performance Plan

This document's purpose is to provide information to stakeholders. It fulfills the requirements of the following articles in United States Code Title 39: 414(f), on the reporting of financial information related to special postage stamps (p 4); 416(f), on the reporting of

information related to semipostal stamps (p 5); 2401(e), on the submission of a Comprehensive Statement (pp 4–12); 2402, on the submission of an Annual Report (pp 2–3); 2803, on the submission of an Annual Performance Plan (pp 13–28); 2804, on the submission of an Annual Performance Report (pp 13–28); 3652(g), on the submission of the Comprehensive Statement, Annual Performance Report and Annual Performance Plan (pp 2–28); and 3686(d), on the reporting of executive compensation in excess of Federal Level Executive 1 (p 12)

<sup>1</sup> The terms "we," "us" and "our" refer to the United States Postal Service.

## FY2017 Annual Report

### Financial and Operational Highlights

	Totals at September 30			Percent change	
	FY2017	FY2016	FY2015	FY2017	FY2016
<i>(in millions, except percentages)</i>					
Mail volume	149,491	154,342	154,321	(3.1)%	– %
Total revenue with investment and interest income	\$ 69,694	\$ 71,530	\$ 68,951	(2.6)%	3.7%
Total expenses	\$ 72,436	\$ 77,121	\$ 73,641	(6.1)%	4.7%
Net loss	\$ (2,742)	\$ (5,591)	\$ (5,060)	(51.0)%	10.5%
Purchases of capital property and equipment	\$ 1,344	\$ 1,428	\$ 1,222	(5.9)%	16.9%
Debt	\$ 15,000	\$ 15,000	\$ 15,000	– %	– %
Capital contributions of U.S. Government	\$ 3,132	\$ 3,132	\$ 3,132	– %	– %
Deficit since 1971 reorganization	\$ (61,856)	\$ (59,114)	\$ (53,523)	4.6%	10.4%
Total net deficiency	\$ (58,724)	\$ (55,982)	\$ (50,391)	4.9%	11.1%
<i>(in actual units indicated, unaudited)</i>					
Number of career employees	503,103	508,908	491,863	(1.1)%	3.5%
Number of non-career employees	141,021	130,881	129,974	7.7%	0.7%
New delivery points served	1,234,496	1,142,352	1,059,852	8.1%	7.8%

## Letter from the Postmaster General

The United States Postal Service plays a vital role in American commerce and binds the nation together through secure, reliable, affordable and universal mail delivery. We delivered 149 billion pieces of mail in fiscal year 2017, serving 157 million delivery points every delivery day, and we recorded annual total revenue of \$69.7 billion. This annual report describes our fiscal year 2017 performance, and our strategies for strengthening our organization and improving the way we serve the American public.

We achieved high levels of delivery performance and customer satisfaction and invested in innovations to keep pace in a rapidly evolving business environment — all while facing significant financial burdens due to a highly competitive marketplace and the constraints of our current business model.

We accelerated mail's integration with digital and mobile platforms, and enhanced mail's value as a marketing and communications channel, for both senders and receivers. We enabled America's continuing e-commerce growth by giving customers unprecedented visibility and competitive shipping solutions that reach every door in America every delivery day. And, we served every community and business in America as a self-funded organization that competes for every customer. The Postal Service receives no tax dollars for operating expenses and relies on the sale of postage, products and services to fund its operations.

We remain highly focused on the experience we create for our customers and on the value we deliver in an increasingly digital world. We are committed to investing in innovation, infrastructure, efficiency and the 644,000 men and women of the Postal Service who live and work in every community in America, and to fully meet the needs of the American public, today and far into the future.

Thank you for reviewing this report and for your interest in the United States Postal Service.



Megan J. Brennan  
Postmaster General and Chief Executive Officer



# FY2017 Comprehensive Statement

## Overview of Postal Operations

### Mission

According to Title 39 of the United States Code, “The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by an Act of Congress, and supported by its people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services to all communities.”

### Governance

By law, we have an 11-seat Board of Governors (the “Board”), which consists of our Postmaster General, our Deputy Postmaster General and nine independent Governors. The President appoints these independent Governors, with the Senate’s advice and consent. The Board is required to have a quorum of six members to exercise its powers. In 2014, the Board issued a resolution establishing a Temporary Emergency Committee (TEC), consisting of all remaining members of the Board, to exercise certain powers reserved to the Board in the event that the number of Governors in office is insufficient to form a quorum. At present, the TEC consists only of our Postmaster General and Deputy Postmaster General. For the first time since we began operations as the United States Postal Service in 1971, there are no presidentially appointed Governors; however, three Governor nominations have been sent to the Senate and await confirmation. For ease of use, references to the “Board” or “Board of Governors” encompass the TEC as appropriate.

### Services

In fulfilling our universal service obligation, we provide services to patrons in all areas and communities in the United States. This includes rural areas, communities and small towns where Post Offices are not self-sustaining. We use a variety of transportation methods to move mail through this large network, including highway and air transportation. We leverage strong partnerships with more than 8,000 suppliers, including private carriers for air and surface transportation.

Services are provided through approximately 31,000 Post Offices, stations and branches; approximately 4,000 additional Contract Postal Units, Community Post Offices and Village Post Offices; a network of commercial outlets; and our website, [www.usps.com](http://www.usps.com). We deliver to approximately 157 million city, rural, PO Box and highway delivery points. We aim to make our retail locations convenient, accessible and cost-effective.

### Postal Rates

Postal rates are established to be fair, equitable and affordable. Prices and fees are reviewed and approved by our Governors and subject to a review process by the Postal Regulatory Commission (PRC). In FY2017, our retail price for a First-Class Mail stamp (\$0.49) was the most affordable across all posts in industrialized nations.

We offer two categories of products, which are classified for regulatory purposes as market-dominant products and competitive products. Market-dominant products include, among others, First-Class Mail, USPS Marketing Mail (more commonly known as Marketing Mail and formerly known as Standard Mail) and Periodicals. Currently, price increases for these products are subject to a price cap based on the Consumer Price Index for All Urban Consumers. Competitive products, such as Priority Mail, Priority Mail Express, First-Class

Package Service, Parcel Select, Parcel Return Service and some types of International Mail, have greater pricing flexibility. Our Governors set prices for competitive products and the PRC reviews them for legal compliance. By law, prices for these products must cover costs attributable to each product (i.e., the direct and indirect costs attributable to such products) and must contribute a reasonable share (currently 5.5 percent) of our institutional costs, as determined by the PRC.

### **Semipostal Stamps**

In FY2017, we sold two semipostal stamps, the *Breast Cancer Research* semipostal stamp and the *Save the Vanishing Species* semipostal stamp, both mandated by Congress. These semipostal stamps are postage stamps with a postage value equal to the First-Class Mail single-piece, one-ounce stamp rate in effect at the time of purchase, plus an amount to fund a designated cause. By law, revenue from sales of semipostal stamps, less the postage paid and the reasonable costs incurred by us, are distributed to designated agencies to support the designated causes.

The *Breast Cancer Research* stamp generated approximately \$1.9 million in funds in excess of the postage value in FY2017. Of this amount, the Postal Service retained \$8,875 to cover our costs to sell and distribute the stamp. Of the remaining amount, approximately \$1.3 million (70 percent) was given to the National Institute of Health and approximately \$571,000 (30 percent) was given to the Medical Research Program at the Department of Defense.

The *Save the Vanishing Species* stamp generated approximately \$684,000 in funds in excess of the postage value in FY2017. We did not deduct any costs in connection with these stamps in FY2017. All of the funds collected in excess of the postage value were given to the U.S. Fish and Wildlife Service to support the Multinational Species Conservation Funds.

# Key Financial and Operating Statistics

## Financial History Summary

(in millions)

	FY2017	FY2016	FY2015
<b>Operating results</b>			
Total revenue	\$ 69,636	\$ 71,498	\$ 68,928
Operating expenses			
Compensation and benefits <sup>1</sup>	49,108	48,441	47,278
Unfunded retirement benefits	2,658	248	241
Retiree health benefits	4,260	9,105	8,811
Workers' compensation	(797)	2,682	1,760
Transportation	7,238	6,992	6,579
All other operating expenses	9,743	9,431	9,157
Loss from operations	\$ (2,574)	\$ (5,401)	\$ (4,898)
Investment and interest income, net	(168)	(190)	(162)
<b>Net loss</b>	<b>\$ (2,742)</b>	<b>\$ (5,591)</b>	<b>\$ (5,060)</b>
Financial position			
Cash and cash equivalents <sup>2</sup>	\$ 10,513	\$ 8,077	\$ 6,634
Property and equipment, net	14,891	15,296	15,686
All other assets	1,990	1,846	1,694
<b>Total assets</b>	<b>\$ 27,394</b>	<b>\$ 25,219</b>	<b>\$ 24,014</b>
Retiree health benefits	\$ 38,160	\$ 33,900	\$ 28,100
Workers' compensation liability	17,910	20,039	18,811
Debt	15,000	15,000	15,000
All other liabilities	15,048	12,262	12,494
<b>Total liabilities</b>	<b>\$ 86,118</b>	<b>\$ 81,201</b>	<b>\$ 74,405</b>
<b>Total net deficiency</b>	<b>\$ (58,724)</b>	<b>\$ (55,982)</b>	<b>\$ (50,391)</b>

<sup>1</sup> Excludes amortization of unfunded retirement benefits, retiree health benefits and workers' compensation.

<sup>2</sup> Cash and cash equivalents are unrestricted.



## Revenue, Pieces and Weight Statistics

(in millions of units indicated; pieces and weights unaudited)

	FY2017	FY2016	FY2015
<b>First-Class Mail<sup>1</sup></b>			
Revenue	\$ 25,637	\$ 27,508	\$ 28,412
Number of pieces	58,747	61,240	62,599
Weight, pounds	2,863	3,058	3,166
<b>Marketing Mail<sup>2</sup></b>			
Revenue	\$ 16,626	\$ 17,622	\$ 17,646
Number of pieces	78,329	80,885	80,030
Weight, pounds	7,577	7,961	7,975
<b>Shipping and Packages services<sup>3</sup></b>			
Revenue	\$ 19,481	\$ 17,427	\$ 15,061
Number of pieces	5,748	5,159	4,539
Weight, pounds	10,958	9,454	7,739
<b>International Mail</b>			
Revenue	\$ 2,723	\$ 2,674	\$ 2,702
Number of pieces	1,003	1,005	913
Weight, pounds	512	484	459
<b>Periodicals</b>			
Revenue	\$ 1,375	\$ 1,507	\$ 1,589
Number of pieces	5,301	5,586	5,838
Weight, pounds	1,922	2,058	2,168
<b>U.S. Postal Service Mail<sup>4</sup></b>			
Number of pieces	319	422	356
Weight, pounds	104	118	114
<b>Free matter for the blind<sup>4</sup></b>			
Number of pieces	44	45	46
Weight, pounds	20	18	18
Other services – revenue <sup>3</sup>	\$ 3,751	\$ 3,630	\$ 3,380
Change in accounting estimate <sup>5</sup>	\$ —	\$ 1,061	\$ —
<b>Postal Service totals</b>			
<b>Operating revenue</b>	<b>\$ 69,593</b>	<b>\$ 71,429</b>	<b>\$ 68,790</b>
<b>Number of pieces</b>	<b>149,491</b>	<b>154,342</b>	<b>154,321</b>
<b>Weight, pounds</b>	<b>23,956</b>	<b>23,151</b>	<b>21,639</b>

Note: We have reclassified the totals for certain mail categories for prior years to conform with classifications used in the current year.

<sup>1</sup> Excludes First-Class Mail Parcels.

<sup>2</sup> Excludes Marketing Mail Parcels.

<sup>3</sup> See Shipping and Packages Services and Other Services Statistics table on the following page.

<sup>4</sup> No revenue is received or recorded for these categories of mail.

<sup>5</sup> During FY2016, we revised the technique used to estimate our deferred revenue - prepaid postage liability for Forever stamps. As a result of this change, deferred revenue - prepaid postage was decreased by nearly \$1.1 billion. In accordance with accounting principles generally accepted in the United States (GAAP), the change was accounted for as a change in accounting estimate.

## Shipping and Packages Services and Other Services Statistics

(in millions of units indicated; pieces, articles and weights unaudited)

	FY2017	FY2016	FY2015
Priority Mail Express			
Revenue	\$ 766	\$ 809	\$ 779
Number of pieces	30	33	36
Weight, pounds	34	37	38
First-Class Packages <sup>1</sup>			
Revenue	\$ 3,333	\$ 2,782	\$ 2,292
Number of pieces	1,151	1,028	933
Weight, pounds	453	371	320
Priority Mail <sup>2</sup>			
Revenue	\$ 8,690	\$ 8,206	\$ 7,664
Number of pieces	1,042	1,029	1,007
Weight, pounds	2,615	2,581	2,370
Parcel Select Mail			
Revenue	\$ 5,708	\$ 4,662	\$ 3,364
Number of pieces	2,836	2,414	1,937
Weight, pounds	6,347	5,014	3,601
Parcel Return Service Mail			
Revenue	\$ 183	\$ 168	\$ 152
Number of pieces	69	64	60
Weight, pounds	195	188	171
Package Services			
Revenue	\$ 801	\$ 800	\$ 810
Number of pieces	620	591	566
Weight, pounds	1,314	1,263	1,239
<b>Total shipping and packages services</b>			
<b>Revenue</b>	<b>\$ 19,481</b>	<b>\$ 17,427</b>	<b>\$ 15,061</b>
<b>Number of pieces</b>	<b>5,748</b>	<b>5,159</b>	<b>4,539</b>
<b>Weight, pounds</b>	<b>10,958</b>	<b>9,454</b>	<b>7,739</b>
Other services			
Certified Mail			
Revenue	\$ 667	\$ 672	\$ 669
Number of articles	199	198	200
Return Receipts			
Revenue	\$ 338	\$ 359	\$ 374
Number of articles	146	154	158
USPS Tracking			
Revenue	\$ 1	\$ 1	\$ 41
Number of articles	4,951	4,318	3,550
PO Box Services revenue	\$ 964	\$ 951	\$ 924
Money Orders			
Revenue	\$ 147	\$ 153	\$ 159
Number of articles	87	90	93
Insurance			
Revenue	\$ 74	\$ 79	\$ 90
Number of articles	15	16	19
Shipping and mailing supplies			
Revenue	\$ 109	\$ 109	\$ 111
Number of articles	55	54	55
Miscellaneous other services revenue	\$ 1,451	\$ 1,306	\$ 1,012
<b>Total other services revenue</b>	<b>\$ 3,751</b>	<b>\$ 3,630</b>	<b>\$ 3,380</b>

Note: We have reclassified the totals for certain mail categories for prior years to conform with classifications used in the current year.

<sup>1</sup> Includes First-Class Mail Parcels and First-Class Package Services.

<sup>2</sup> Includes USPS Retail Ground (formerly Standard Post), which is a retail-only product classified as Market Dominant. USPS Retail Ground is priced identically and functionally equivalent to Priority Mail for shorter mailing distances.

## Post Offices and Delivery Points

(in actual units indicated, unaudited)

	FY2017	FY2016	FY2015
Post Offices, stations and branches			
Postal Service-managed			
Post Offices	26,410	26,611	26,615
Classified stations, branches and carrier annexes	4,967	4,974	4,991
<b>Total Postal Service-managed</b>	<b>31,377</b>	<b>31,585</b>	<b>31,606</b>
Contract Postal Units	2,331	2,458	2,504
Village Post Offices	821	877	874
Community Post Offices	476	503	536
<b>Total offices, stations and branches</b>	<b>35,005</b>	<b>35,423</b>	<b>35,520</b>
Residential delivery points			
City delivery	82,855,611	82,411,214	82,020,625
Rural	42,805,252	42,065,134	41,378,300
PO Box	15,954,141	15,926,420	15,894,358
Highway contract	2,924,386	2,880,500	2,827,085
<b>Total residential delivery</b>	<b>144,539,390</b>	<b>143,283,268</b>	<b>142,120,368</b>
Business delivery points			
City delivery	7,690,284	7,664,927	7,633,285
Rural	1,639,505	1,614,185	1,584,916
PO Box	3,379,418	3,452,198	3,535,563
Highway contract	80,079	79,602	77,696
<b>Total business delivery</b>	<b>12,789,286</b>	<b>12,810,912</b>	<b>12,831,460</b>
<b>Total delivery points</b>	<b>157,328,676</b>	<b>156,094,180</b>	<b>154,951,828</b>
Change in delivery points	1,234,496	1,142,352	1,059,852

## Number of Routes by Type of Delivery

(in actual units indicated, unaudited)

Route	FY2017	FY2016	FY2015
City	143,937	144,571	143,051
Rural	75,433	74,724	73,818
Highway contract route	9,810	9,809	9,908
<b>Total</b>	<b>229,180</b>	<b>229,104</b>	<b>226,777</b>

## Postal Vehicle Inventory

(in actual units indicated, unaudited)

Vehicle type	FY2017	FY2016	FY2015
Delivery and collection (0.5–2.5 tons)	205,997	203,853	193,489
Mail transport (tractors and trailers)	5,379	5,511	5,620
Mail transport (3–9 tons)	2,080	2,100	2,112
Administrative and other	7,507	6,357	6,414
Service (maintenance)	7,034	7,191	4,565
Inspection Service and law enforcement	2,942	2,884	2,733
<b>Total</b>	<b>230,939</b>	<b>227,896</b>	<b>214,933</b>

## Real Estate Inventory

(in actual units indicated, unaudited)

Real estate inventory	FY2017	FY2016	FY2015
Owned properties	8,448	8,484	8,524
Owned interior square feet	191,745,056	192,521,396	194,220,092
Leased properties	23,184	23,214	23,314
Leased interior square feet	78,335,141	78,735,195	78,144,453
GSA <sup>1</sup> /other government properties	285	285	286
GSA/other government interior square feet	1,839,972	1,885,956	1,902,726

<sup>1</sup>General Services Administration.

## Real Estate Inventory Actions

(in actual units indicated, unaudited)

Real estate inventory actions	FY2017	FY2016	FY2015
Lease actions (alternate quarters, new leases and renewals)	3,927	5,050	6,206
Property disposals <sup>1</sup>	18	27	16
New construction <sup>2</sup>	69	52	22
Repair and alteration projects (expense)	53,694	53,466	51,584
Repair and alteration expense totals (rounded)	\$ 217,000,000	\$ 245,000,000	\$ 215,000,000
Repair and alteration projects (capital)	4,598	5,102	6,981
Repair and alteration capital totals (rounded)	\$ 389,500,000	\$ 314,000,000	\$ 347,000,000

<sup>1</sup> Total partial and complete property sales (does not include non-property sales such as right-of-ways/easements, sale of rights, defaults, installment payments, etc.).

<sup>2</sup> Includes the build-out of pre-existing spaces that we did not previously own (alternate quarters), the new construction of leased or owned space and the expansion of existing spaces.

## Employees

(actual numbers, unaudited)

	FY2017	FY2016	FY2015
Headquarters and HQ related employees			
Headquarters	3,252	3,098	2,916
Headquarters – field support units	3,581	3,640	3,710
Inspection Service – field	2,439	2,411	2,379
Inspector General	1,067	1,134	1,142
<b>Total HQ and HQ related employees</b>	<b>10,339</b>	<b>10,283</b>	<b>10,147</b>
Field employees			
Area offices	825	821	851
Postmasters/installation heads	13,641	14,398	14,506
Supervisors/managers	25,281	24,832	23,754
Professional administration and technical personnel	4,580	4,526	4,468
Clerks/nurses	128,256	130,178	125,609
Mail handlers	39,307	39,405	38,046
City delivery carriers	166,569	170,885	164,378
Motor vehicle operators	8,147	7,723	6,658
Rural delivery carriers – full-time	69,462	68,261	67,044
Building and equipment maintenance personnel	31,366	32,307	31,136
Vehicle maintenance employees	5,330	5,289	5,266
<b>Total field employees</b>	<b>492,764</b>	<b>498,625</b>	<b>481,716</b>
<b>Total career employees</b>	<b>503,103</b>	<b>508,908</b>	<b>491,863</b>
Non-career employees			
Casuals	922	1,633	1,727
Postal support employees	26,823	26,368	29,312
Non-bargaining temporary	304	355	367
Rural part-time	59,655	53,183	50,640
Postmaster relief and leave replacements	2,368	3,626	4,839
City carrier assistant	44,486	40,436	37,767
Mail handler assistant	6,463	5,280	5,322
<b>Total non-career employees</b>	<b>141,021</b>	<b>130,881</b>	<b>129,974</b>
<b>Total employees</b>	<b>644,124</b>	<b>639,789</b>	<b>621,837</b>

## Employee Compensation

The law requires us to provide compensation and benefits to employees at a level comparable to the private sector. We continue to pursue this goal for all of our employees. In addition, we support, develop and provide a wide range of tools and development resources that assist employees in reaching their full potential.

The Board establishes executive officer compensation and benefits, subject to the requirements and limitations of federal law. Although our governing law provides that executives should be compensated at a level comparable to the private sector, we do not have the resources to achieve this level of compensation. Compensation for our executive officers remains significantly below that of similarly-ranked senior executives in the private sector.

In most circumstances, we cannot compensate our executives more than the rate for Level 1 of the Executive Schedule (\$205,700 in Calendar Year 2016). Under certain programs, we can award bonuses or other rewards, which raise the level of compensation beyond this limit; however, compensation is still limited by federal law.

Because Calendar Year 2015 had 27 pay periods rather than the usual 26, some performance-based payments for FY2015 were paid in Calendar Year 2016. As a result, some individuals received performance-based payments for both FY2015 and FY2016 in Calendar Year 2016. FY2015 and FY2016 performance-based payments were determined when we still had a Governor appointed by the President and confirmed by the Senate.

In accordance with legal reporting requirements, the following table reports Calendar Year 2016 compensation information including 1) our executives compensated in excess of Federal Executive Level 1 in Calendar Year 2016, 2) the amount of bonus or other payments that caused pay to exceed Level 1 of the Executive Schedule in Calendar Year 2016, including some FY2015 performance-based payments that could not be paid in 2015 due to the extra pay period and 3) the Calendar Year 2016 compensation in excess of Level 1 of the Executive Schedule. The terms “bonus or other payment” in the second column of the table are statutory terms that represent various amounts

which are a part of an executive’s total compensation; these amounts are predicated on the Postal Service’s maintenance of a performance appraisal system that makes meaningful distinctions based on relative performance.

<b>Executive name</b>	<b>Calendar Year 2016 bonus or other payment</b>	<b>Calendar Year 2016 compensation in excess of Level 1 of Executive Schedule</b>
Michael J. Amato	\$31,111	\$18,834
Megan J. Brennan	79,429	79,429
Susan M. Brownell	19,900	10,817
Robert Cintron	25,242	20,914
James P. Cochrane	71,520	71,520
Joshua D. Colin	28,514	28,437
Joseph Corbett	54,825	54,825
Guy J. Cottrell	21,603	13,911
Dean J. Granholm	26,942	26,865
Gregory G. Graves	24,914	13,860
Luke T. Grossmann	22,487	8,385
Linda M. Malone	24,042	20,514
Thomas J. Marshall	60,523	60,523
Kevin L. McAdams	20,547	8,162
Maura A. McDevitt	32,165	30,459
Pritha Mehra	19,843	7,796
Julie S. Moore	23,714	23,524
Shaun E. Mossman	23,642	21,620
James A. Nemeec	12,692	4,649
Sharon D. Owens	20,946	9,347
Edward F. Phelan, Jr.	24,842	22,246
Gary C. Reblin	30,948	22,465
Nancy L. Rettinhouse	31,246	25,846
William C. Rucker, III	27,014	26,937
Tom A. Samra	23,578	16,385
Kristin A. Seaver	55,692	55,692
Kelly M. Sigmon	18,620	3,295
Jacqueline K. Strako	28,714	28,637
Ronald A. Stroman	66,673	66,673
Douglas A. Tulino	32,553	27,250
Giselle E. Valera	17,300	1,600
Tammy L. Whitcomb	19,872	19,603
David E. Williams, Jr.	66,683	66,683
Jeffrey C. Williamson	60,523	60,523

*Note: Legislation requires reporting compensation in the last full calendar year. This does not align with our fiscal year, which is from October to September.*

# FY2017 Performance Report and FY2018 Performance Plan

## Corporate-wide Goals and Targets

To better fulfill our mission, we have four strategic areas of focus, which are:

- Deliver a World-Class Customer Experience
- Equip, Empower and Engage Employees
- Innovate Faster to Deliver Value
- Invest in our Future Platforms

In order to assess our efforts to achieve these strategies, we measure our performance through progress against corporate performance outcomes:

- High-Quality Service
- Excellent Customer Experiences
- Safe Workplace and Engaged Workforce
- Financial Health

For each of these outcomes, the following subsections describe the indicators and measures used to assess our progress, a report of our performance in FY2017 and our plan for FY2018, including indicator targets. The table on the following page shows our performance from FY2014–FY2017 and our targets for FY2017–FY2018 for each indicator.

These targets are aligned with the *FY2018 Integrated Financial Plan* (IFP), which includes our planned revenue and expenses for FY2018. Every fiscal year, we develop a budget and plan that we intend to be sufficient for our field offices to meet their non-financial performance outcomes. We design all of our corporate-wide targets to be achievable given the planned finances in the IFP.

Furthermore, the measure “Controllable Income (Loss),” one of our indicators for the outcome “Financial Health,” is based on planned expenditures and revenues for every program activity (i.e., budget item contributing to controllable income [loss]) outlined in the IFP. Controllable income (loss) is a non-GAAP (accounting principles generally accepted in the United States) measure defined as total revenue less controllable expenses and one-time accounting adjustments. Controllable expenses consist of compensation and benefits; transportation; depreciation; supplies and services; and rent, utilities and other controllable expenses. They do not include non-controllable expenses, discussed further in a subsequent section.

In the subsection “Controllable Income (Loss),” we provide the planned revenues and expenditures for FY2018, as well as actual revenues and expenditures for FY2017. This plan yields a target controllable loss for FY2018, which is our target for the FY2018 IFP, for the reasons discussed in that subsection.

We developed the budget in the IFP to be consistent with our planned work hours, which are used in the calculation of the targets for the measure “Deliveries per Total Work Hours, % Change.”

## FY2014–FY2017 Results and FY2017–FY2018 Targets for Corporate-wide Performance Outcomes

Corporate Performance Outcome	Measure	FY2018 Target	FY2017 Actual	FY2017 Target	FY2016 Actual	FY2015 Actual	FY2014 Actual
High-Quality Service	Single-Piece First-Class Mail						
	Two-day	96.50	94.72	96.50	94.66	93.28	94.90
	Three-to-five-day	95.25	85.57	95.25	83.66	76.56	87.70
	Presort First-Class Mail						
	Overnight	96.80	96.46	96.80	96.16	95.74	97.00
	Two-day	96.50	95.58	96.50	95.05	93.56	96.40
	Three-to-five-day	95.25	93.16	95.25	91.68	87.78	92.20
	First-Class Mail Letter and Flat Composite <sup>1</sup>	96.00	93.29	96.00	92.34	89.44	93.58
Marketing Mail and Periodicals Composite <sup>2</sup>	91.80	91.44	91.00	90.01	86.77	88.35	
Excellent Customer Experiences	Customer Insights Composite <sup>3</sup>	80.93	88.30	89.00	87.62	85.73	84.65
	Business Service Network (BSN)	96.73	96.25	96.73	95.13	94.32	94.05
	Point of Sale (POS)	90.42	88.53	90.42	86.38	86.28	81.59
	Delivery	86.33	83.22	82.67	76.26	77.49	79.55
	Customer Care Center (CCC) <sup>4</sup>	69.17	86.80	86.80	85.18	76.00	74.00
	Enterprise Customer Care (eCC) <sup>5</sup>	70.00	3.78	3.44	5.19	NA	NA
	Large Business	78.00	76.75	NA	75.88	74.61	NA
	USPS.com	66.33	NA	NA	NA	NA	NA
Safe Workplace and Engaged Workforce	Business Mail Entry Unit (BMEU)	95.00	NA	NA	NA	NA	NA
	Total Accident Rate	15.00	15.43	15.00	16.09	16.44	15.97
	Engagement Survey Response Rate <sup>6</sup>	75	46	51	30	47	51
Financial Health	Controllable Income (Loss) (\$ in billions)	(1.40)	(0.81)	0.10	0.61	1.19	1.35
	Deliveries per Total Work Hours, % Change	2.1	(0.5)	0.6	0.1	(1.1)	1.0

Note: NA indicates that no data was collected or that no target was set for the relevant indicator and year.

<sup>1</sup> For our FY2014–FY2017 results and FY2017–FY2018 targets, we report the First-Class Mail Letter and Flat (FCLF) Composite in lieu of the First-Class Composite, which we reported in previous Annual Reports to Congress. FCLF Composite does not include First-Class Mail parcels. FCLF Composite numbers are based on the externally-measured quarterly service performance data that we file with the PRC pursuant to Part 3055 of Title 39 of the Code of Federal Regulations; they do not include mitigating factors used internally for compensatory purposes.

<sup>2</sup> For our FY2014–FY2017 results and FY2017–FY2018 targets, we report the Marketing Mail and Periodicals Composite in lieu of the Standard Composite, which we reported in previous Annual Reports to Congress.

<sup>3</sup> In FY2017, the Customer Insights Composite was based on BSN, POS, Delivery, CCC and eCC. In FY2018, the Customer Insights Composite will be based on BSN, POS, Delivery, CCC, eCC, Large Business, USPS.com and BMEU.

<sup>4</sup> The FY2018 target is based on satisfaction with both live agents and our Interactive Voice Response System, while the FY2014–FY2017 actuals and FY2017 target are based on satisfaction with live agents only. Because of this change in measurement, the FY2018 target is not directly comparable to the FY2017 target.

<sup>5</sup> The FY2018 target is based on customer overall satisfaction with the handling of eCC cases, while the FY2014–FY2017 actuals and FY2017 target are based on the percentage of cases that were reopened.

<sup>6</sup> In FY2015–FY2017, and for the FY2018 target, we used the Postal Pulse survey. In FY2014, we issued the Voice of the Employee survey. We did not use the response rate to measure employee engagement at that time, and the results of the Voice of the Employee survey are not directly comparable with the results of the Postal Pulse survey. For FY2018, we chose a stretch goal in excess of results to date to emphasize the importance of this measure.



## High-Quality Service

FY2017 saw an improvement in performance for all of our service metrics. As part of our efforts to continuously improve our performance, we have developed new performance composite metrics and updated our targets for FY2018. We measure the speed and reliability of the delivery of our market-dominant products as part of our commitment to deliver high-quality service. We use a third-party contractor to measure performance for several categories of mail. This sampling system measures the time from when mail is deposited in a designated postal facility to when a carrier delivers it to a home, business or PO Box. Below we describe the categories of mail for which we measure performance.

**Single-Piece First-Class Mail.** The measures for Single-Piece First-Class Mail represent the performance of Single-Piece First-Class Mail letters, postcards and flats throughout the fiscal year and performance of Single-Piece First-Class Mail parcels received until September 8, 2017. (Beginning in September 2017, we classified all mailed First-Class Mail parcels as competitive products.) The indicators show the estimated percent of total mail by service standard (Two-day and Three-to-Five-day) that was delivered on time. We combined the on-time scores for 1) letters, postcards and flats and 2) parcels. To do so, we weighted the two scores by the estimated volume of each mail type.

**Presort First-Class Mail.** The measures for Presort First-Class Mail represent the performance of commercial presorted First-Class Mail letters, postcards and flats delivered throughout the fiscal year. The indicators show the estimated percent of total mail by service standard (Overnight, Two-day and Three-to-Five-day) that was delivered on time.

**First-Class Mail Letter and Flat Composite.** We began using the First-Class Mail Letter and Flat (FCLF) Composite in FY2017. This category is the weighted average of the performance of Single-Piece First-Class Mail and Presort First-Class Mail across all service standards, weighted by volume.

FCLF Composite replaces First-Class Composite, which was reported through FY2016. FCLF Composite differs from First-Class Composite in that FCLF Composite does not include First-Class Mail parcels. The change had little impact on the indicator; parcels represented less than 1 percent of overall First-Class Mail and

service performance for parcels is similar to that of letters and flats.

**Marketing Mail and Periodicals Composite.** We began using Marketing Mail and Periodicals Composite in FY2017. This category is a composite indicator of the percent of all Marketing Mail and Periodicals that were delivered during the year within the service standard established. This includes Marketing Mail letters, Marketing Mail flats and Periodicals. Approximately two-thirds of mail volume in this composite is Marketing Mail letters, and the remainder Marketing Mail flats and Periodicals; the indicator includes substantial volumes of both types of mail.

The Marketing Mail and Periodicals Composite replaces the Standard Composite, which was reported through FY2016. The Marketing Mail and Periodicals Composite indicator is comprised of all measured Marketing Mail and Periodicals of all entry types, while the Standard Composite indicator included only Marketing Mail that was entered at destination network distribution centers or sectional center facility entry points. As a result of additional products in both Marketing Mail and Periodicals, and the addition of mail that travels through the entire postal network rather than destination entry mail only, the Marketing Mail and Periodicals Composite scores are lower than the prior Standard Composite scores.

## FY2017 Performance Report

Our focus on continuous improvement has allowed us to improve performance on all of our service targets in FY2017. We have developed robust service diagnostics tools in recent years, leveraging enhanced-visibility data. Over the past year, we created or overhauled numerous dashboards to provide us with the tools we need to drive performance and improve service efficiencies. We use these tools daily to proactively identify and resolve systemic issues impacting service across all our products. We also trained employees on the use of diagnostic tools through formal classes, webinars and BlueTube internal training videos. In addition, we conduct meetings on an ongoing basis with area and district offices to thoroughly review opportunities to improve service. We use tools such as Lean Six Sigma to continuously improve operations throughout our network.

For the Marketing Mail and Periodicals Composite, we both improved over FY2016 and met our FY2017 target. Temporary disruptions in any of the mail distribution, network transportation or delivery processes can negatively impact service performance. These disruptions contributed to us missing our FY2017 targets in the Single-Piece and Presort First-Class Mail targets. These delays were sometimes the result of natural disasters and weather events and negatively affected otherwise high-quality service.

## FY2018 Performance Plan

The target for Marketing Mail and Periodicals Composite will increase in FY2018 to 91.80. Targets for FY2018 for Single-Piece First-Class Mail and for Presort First-Class Mail are the same as for FY2017. In FY2018, Single-Piece First-Class Mail scores will include data for only letters, postcards and flats. We will not include First-Class Mail parcels because we now classify them as competitive products. We will calculate all other measures in the same manner as in FY2017.

We will continue to implement operational, technological and training initiatives, which began in FY2017, to improve the mail delivery process and achieve our targets in FY2018. We will implement improved software to generate better daily operational plans. We will also continue to develop and deploy more precise tools, such as Informed Visibility, to scan and track mail at every step of the mail-handling process.

We will also improve the training of field personnel in mail handling. This includes familiarizing all employees with the mail processing activities throughout postal plants to help them better identify and understand operational inefficiencies. We will keep employees engaged through daily huddles, where they will discuss the day's workload. We will improve procedures and deploy new technologies to improve the efficiency of our mail-handling and delivery processes. We will increase operational maintenance and the presence of maintenance personnel to reduce inefficiencies due to equipment failure.

In addition, we will implement other operational changes. This includes increasing the amount of advanced mail (i.e., mail that is processed ahead of schedule), ensuring that all late arrival mail is captured and improving delivery point sequencing procedures to make delivery operations more efficient.

## Excellent Customer Experiences

We improved on all of our measures of customer experience in FY2017. The Customer Insights (CI) measurement system provides a comprehensive view of the customer experience across the most frequently used customer contact channels. In FY2017, we based the CI Composite score on the following subcategories:

**Business Service Network (BSN) survey.** The BSN is a dedicated nationwide network that provides support to qualified business customers for service issues, information and requests. The BSN survey measured businesses' overall satisfaction with their BSN account representative.

**Point of Sale (POS) survey.** The POS survey measured the customer's overall satisfaction with experiences at retail locations.

**Delivery survey index.** The Delivery survey index was comprised of two components: the Carrier survey index score (weighted 95 percent) and the PO Box survey score (weighted 5 percent). The Carrier survey index was based on four equally weighted categories:

1) overall satisfaction with the letter carrier, 2) mail delivered to the correct address, 3) mail delivered in good condition and 4) carrier friendly and courteous. In each category, residential customers are weighted 85 percent and small and medium business (SMB) customers are weighted 15 percent. The PO Box survey score is based only on overall satisfaction, and residential and SMB customers are weighted equally. The results of the survey were statistically valid at the national, area and district level.<sup>2</sup>

**Customer Care Center (CCC) survey.** This survey measured customer satisfaction with our customer care centers. It was based on a question to assess customers' overall satisfaction.

**Enterprise Customer Care (eCC).** This measured the percentage of cases that customers reopened. A lower percentage is a better outcome, since reducing the number of times a customer reopens a previously submitted inquiry drives customer satisfaction. Customers open cases via the eCC application on USPS.com or by calling the Customer Care Center and speaking with an agent. We calculated the percentage

<sup>2</sup> A 90 percent confidence level with a 5 percent margin of error required a minimum number of 270 respondents at the district level annually. In each case, we exceeded this threshold.

score by identifying the number of cases that were resolved in any particular month and reopened within 90 days

### FY2017 Performance Report

In FY2017, our CI Composite score improved to 88.30, while our target was 89.00. We achieved our targets in the Delivery and CCC subcategories but did not meet our targets in the BSN, POS and eCC subcategories.

For FY2014–FY2016, we calculated the CI Composite score as a weighted composite of its components. In FY2017, the CI Composite consisted of five subcategories (weights given in parentheses): BSN (30 percent), POS (20 percent), Delivery (20 percent), CCC (20 percent) and eCC (10 percent). To generate the composite score, we mapped the raw score for each category to a scale with values ranging from 1 to 15. We took the weighted average of these scaled scores, and then mapped the score to another scale ranging from 75 to 99.

The CI Composite score is not easily comparable across years, due to continuous improvement strategies implemented each year, resulting in changes in components, weighting and indexing. However, CI subcomponent scores, other than Delivery, are comparable from year to year. Delivery survey scores are a composite of the scores from residential and SMB customers; they are not directly comparable from year to year because the weighting of residential and SMB customers changes. The following table shows unweighted and unindexed subcomponents of the delivery score. SMB customer satisfaction increased in FY2017 while residential customer satisfaction decreased marginally:

#### Delivery Overall Satisfaction

Customer	FY2017	FY2016	FY2015	FY2014
SMB	73.35	72.60	74.65	81.40
Residential	79.44	79.93	80.32	77.70

We have increased the percentage of mail that is properly scanned every year over the last several years. To address delivery complaints resulting from improper scanning, we made scanning nomenclature and menus more intuitive to our carriers. We continue to work to improve the scanning menu options and to make messages to customers on package status clearer. In addition, we used GPS technology to determine where

and when a carrier scanned a package as delivered. Because of these measures, we were able to reduce “I received someone else’s mail” misdelivery complaints in FY2017. However, misdelivery complaints that “my mail was returned to sender” increased. Addressing this issue will require additional and broader work with scanner menus, which is in progress.

We also used a combination of teleconferences with these offices, reports and electronic surveys to identify the root causes of multiple customer experience issues, change-of-address (COA) complaints and misdelivery complaints. We identified poorly performing districts and delivery units in these complaint categories. Some units failed to process COA orders on a daily basis and some printing devices used to keep track of COAs were not functioning properly. Better tracking and reporting of problem units allowed us to decrease COA complaints in FY2017.

Survey data provides information on the reasons for failing to meet our targets in the BSN, POS and eCC subcategories. We outline this information in the following paragraphs.

**BSN survey.** The number one reason customers contacted their BSN representative was to ask about their package’s status, and we are developing software to address this issue.

**eCC survey.** Analysis of eCC survey data shows that some customers had long wait times before being contacted about their complaint or were not contacted at all. Because we found that customers have a more positive experience when we contact them within one business day of their submitting an issue, we are increasing emphasis on prompt initial contact and issue resolution.

**POS survey.** POS survey data shows that the primary drivers of customer satisfaction at retail locations are staff efficiency, staff knowledge and acceptable wait time. Our POS score improved through FY2017, though we did not achieve our target. In FY2017, we developed communications to our employees that addressed managing our retail locations, engaging our employees and continuing the Postal Proud messaging that we developed in FY2016. We improved the customer experience by conducting office-level reviews to streamline the package pick-up processes.

## FY2018 Performance Plan

In FY2018, we will include new subcomponents in the CI Composite, and the methods for calculating existing subcomponents will change. Subcategories of the CI Composite will be (weights in parentheses): BSN (10 percent), POS (10 percent), Delivery (20 percent), CCC (20 percent), eCC (15 percent), USPS.com (5 percent), Large Business (10 percent) and Business Mail Entry Unit (BMEU) (10 percent). We will base the score for each subcomponent on a survey question assessing overall satisfaction. The composite score will be a simple weighted average of the component scores.

- Methods for calculating the BSN and POS subcomponents will remain the same as in FY2017.
- Delivery will no longer be a weighted composite and will be based on a single overall satisfaction question, assessing satisfaction with mail and package delivery.
- We will modify CCC to include satisfaction with our newly introduced Interactive Voice Response (IVR) system. The score will be a weighted composite of overall satisfaction with live agents (weighted 25 percent) and with IVR (weighted 75 percent).
- We will modify eCC to use the eCC survey, which we distribute to customers after we have resolved an eCC case. The score will also be based on overall satisfaction with service regarding the issue prompting the case. This change is to better capture customers' overall satisfaction with the eCC process.
- We will base the USPS.com score on respondents' satisfaction with the USPS.com website.
- The Large Business survey is an online survey of a panel of respondents from large commercial businesses (with 250 employees or more). We will issue it quarterly beginning in FY2018. The survey will assess satisfaction with all experiences their businesses have had with us. We will target individuals with influence over shipping solutions.
- The BMEU survey will assess business customers' satisfaction with their Business Mail Entry Unit.

Based on our root cause analysis of delivery-related issues, as well as analyses of survey data, several improvements are underway, including the development of new scanning and case tracking platforms and

improved employee training. These initiatives, which began in FY2017, will help us to meet our FY2018 targets in all subcomponents of CI.

To address package status inquiries for BSN customers, in the first quarter of FY2018 we will implement an integrated technology platform that will allow agents to access a single repository of information to find a customer's package. This will increase BSN capacity, reduce resolution time and improve customer service. To ensure that we address eCC customer concerns, we will prioritize prompt and reliable issue resolution by exploring new trainings, processes and technological upgrades.

We will increase the number of POS survey respondents through a handout that encourages customers to respond and advertises our Informed Delivery program. We will also deploy redesigned training for our newly assigned Sales and Service Associates that is focused on enhancing the customer experience.

## Safe Workplace and Engaged Workforce

### Employee Safety

We improved employee safety in FY2017 by continuing to make it a top priority. Prevention is the guiding principle for occupational safety and health legislation. To avoid accidents and occupational diseases, we have adopted standard requirements for safety and health protection at the workplace.

Risk assessment and management are fundamental to the prevention and control of risks to safety and health in the workplace. This includes taking into account all relevant risks, checking the efficiency of the safety measures adopted, documenting the outcomes of the assessment and reviewing and updating the assessment regularly.

We use the total accident rate as our measure of safety. This is the total accident count for the year, multiplied by the approximate number of work hours per employee (2,000), multiplied by 100 and divided by the yearly number of work hours. This yields, approximately, the annual accident frequency per 100 employees. This rate uses the same calculation developed by the Occupational Safety and Health Administration (OSHA) for OSHA Illness and Injury (I&I) rates but expands on

it to include accidents that do not result in medical expenses, days away from work or restrictions from performing full duty. Using the total accident rate is an industry best practice.

By tracking and monitoring the total accident rate, we are able to capture every accident, including OSHA recordable accidents (OSHA I&I), non-recordable accidents and motor vehicle accidents. We calculate indicators for each of these categories as quickly as possible so we can implement prevention strategies designed to eliminate accidents and reduce the severity of impact on both the employee and the agency.

**FY2017 Performance Report**

In FY2017, our total accident rate was 15.43. This was a significant improvement over last year's rate of 16.09. Total accidents for FY2017 decreased by more than 3,000 compared to FY2016, despite a slightly larger complement. Nonetheless, we did not meet our aggressive accident rate target of 15.00. The table below shows accidents by type in FY2017 and FY2016:

**Accident Count by Type**

	FY2017	FY2016
OSHA I&I	37,074	37,393
Non-Recordable	51,961	56,153
Motor Vehicle <sup>1</sup>	29,461	29,120
<b>Total</b>	<b>89,035</b>	<b>93,546</b>

<sup>1</sup> Motor vehicle accidents are included in both the OSHA I&I and non-recordable accident counts.

**FY2018 Performance Plan**

Our FY2018 target for the total accident rate is 15.00. To achieve this, we will continue to focus on prevention and a proactive approach to safety through efforts designed to address the most frequent hazards of the workplace, such as dog bites, extreme weather, distracted driving and improper lifting.

We will also focus on the importance of leadership in maintaining a culture of safety. Our safety initiatives will assist our plants and Post Offices in establishing effective accident reduction plans, enlisting the cooperation and support of our employee partners and taking steps to address motor vehicle accidents through training, engineering controls and consistent communications. In addition, we will continue programs that acknowledge leaders who demonstrate exceptional commitment to creating a safe work environment.

**Employee Engagement**

Our employee engagement score increased in FY2017. Engaging workplaces are ones in which individuals and teams are enabled to thrive, perform at consistently high levels and achieve positive organizational outcomes, such as fewer safety incidents, reduced absenteeism and higher customer satisfaction. In FY2017, we continued to prioritize creating and sustaining an engaged workforce.

Central to this effort is providing leaders with the tools, information and resources they need to assess engagement strengths and opportunity areas for their teams and take action to improve their work environments. To this end, we have focused on delivering targeted engagement training for leaders and providing support for employee feedback and action planning.

**FY2017 Performance Report**

In FY2017, we continued to deliver engagement training to all executives, managers and non-bargaining employees across the organization. We accelerated the delivery of the instructor-led training "Creating an Engaging Workplace at USPS" (CEW) to increase the number of leaders trained in the benefits of employee engagement and how to understand and improve it. By the end of the year, more than 38,000 leaders had completed the training.

We measured levels of employee engagement using the Postal Pulse survey, a 13-question instrument developed by Gallup, Inc. measuring 12 elements of engagement plus overall employee satisfaction. We administered the Postal Pulse survey to our entire USPS workforce in August and September, FY2017.

Our key corporate metric is the employee response rate, or the percentage of employees who responded to the survey questions. Our FY2017 response rate of 46 percent represents a significant increase from the prior year response rate (30 percent), but below the goal of 51 percent. To increase employee engagement, and so increase the employee response rate, we have strengthened training initiatives, as described in the following Performance Plan.

We also calculated the grand mean engagement score, or the average of mean scores on the 12 engagement elements, on a scale of 1 to 5. In FY2017, our grand mean engagement score was 3.25, slightly above the 3.24 score obtained in FY2016.<sup>3</sup>

### **FY2018 Performance Plan**

Our FY2018 Postal Pulse survey response rate target is 75%. To achieve this goal, employees will receive increased training in engagement. In addition to CEW training for all managers, executives and non-bargaining employees, we will provide on-site coaching for select leaders to reinforce the principles of creating engaging workplaces. Concurrently, we will pilot a version of engagement training with craft employees, beginning with those employees who have taken on lead roles (e.g., safety captain). This training's goal will be to raise engagement awareness and encourage participation in the feedback process. The evaluation of the pilot will inform the size and scope of further implementation.

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<sup>3</sup> While both the grand mean and survey response rate are key performance indicators to measure our engagement objective, targets are not set for the grand mean. Driving to a grand mean engagement score does not incent managers to encourage honest survey feedback. Driving high response rates, however, is important because it increases the availability and number of employee feedback reports. This, in turn, allows local leaders to receive engagement data specific to their teams, for which they can create action plans.

## **Financial Health**

### **Controllable Income (Loss)**

In FY2017, our total revenue was \$69.7 billion and total expenses were \$72.4 billion, resulting in a net loss of \$2.7 billion. This was \$1.5 billion less than the \$4.2 billion net loss planned in the FY2017 IFP. The lower-than-anticipated net loss was primarily due to a \$2.2 billion reduction in workers' compensation liability (mostly caused by an increase in interest rates), which was partially offset by a revenue shortfall of \$1.0 billion.

We use controllable income (loss), rather than net income (loss), to assess our financial performance. The following table details the elements of net income (loss) and controllable income (loss) and shows planned revenues and expenses by category for FY2017 and FY2018, as well as actual data for FY2014–FY2017:

## Revenue and Expenses

(in billions)

	FY2018 Plan (IFP)	FY2017 Actual	FY2017 Plan (IFP)	FY2016 Actual	FY2015 Actual	FY2014 Actual
First-Class Mail	24.8	25.6	26.0	26.6	27.2	27.6
Marketing Mail	16.2	16.6	17.7	17.6	16.9	16.9
Shipping and packages	21.4	19.5	19.0	17.3	15.0	13.5
International	2.7	2.7	2.8	2.7	2.7	2.9
Periodicals	1.3	1.4	1.4	1.5	1.5	1.6
Other <sup>1</sup>	3.8	3.9	3.8	3.7	3.5	3.9
<b>Revenue<sup>2</sup></b>	<b>\$ 70.2</b>	<b>\$ 69.7</b>	<b>\$ 70.7</b>	<b>\$ 69.4</b>	<b>\$ 66.8</b>	<b>\$ 66.4</b>
Temporary Exigent Surcharge	0.0	0.0	0.0	1.1	2.1	1.4
<b>Total revenue with investment income</b>	<b>\$ 70.2</b>	<b>\$ 69.7</b>	<b>\$ 70.7</b>	<b>\$ 70.5</b>	<b>68.9</b>	<b>\$ 67.8</b>
Compensation and benefits <sup>3</sup>	50.7	50.5	50.7	53.2	51.8	50.4
RHB normal cost <sup>4</sup>	3.5	2.8	2.9	–	–	–
Transportation	7.3	7.2	7.2	7.0	6.6	6.6
Depreciation	1.7	1.7	1.6	1.7	1.8	1.8
Supplies and services	3.0	3.0	3.0	2.8	2.7	2.6
Rent, utilities and other <sup>5</sup>	5.4	5.3	5.2	5.2	4.8	5.0
<b>Controllable expenses</b>	<b>\$ 71.6</b>	<b>\$ 70.5</b>	<b>\$ 70.6</b>	<b>\$ 69.9</b>	<b>\$ 67.7</b>	<b>\$ 66.4</b>
<b>Controllable income (loss)</b>	<b>\$ (1.4)</b>	<b>\$ (0.8)</b>	<b>\$ 0.1</b>	<b>\$ 0.6</b>	<b>\$ 1.2</b>	<b>\$ 1.4</b>
RHB pre-funding	–	–	–	(5.8)	(5.7)	(5.7)
RHB normal cost actuarial revaluation <sup>4</sup>	–	(0.5)	–	–	–	–
RHB unfunded liability amortization	(1.2)	(1.0)	(2.9)	–	–	–
FERS unfunded liability amortization	(0.9)	(0.9)	(0.2)	(0.2)	(0.2)	–
CSRS unfunded liability amortization	(1.7)	(1.7)	(1.2)	–	–	–
Workers' comp. fair value and other non-cash adjustments	–	2.2	–	(1.3)	(0.4)	(1.2)
Change in accounting estimate <sup>6</sup>	–	–	–	1.1	–	–
<b>Net income (loss)</b>	<b>\$ (5.2)</b>	<b>\$ (2.7)</b>	<b>\$ (4.2)</b>	<b>\$ (5.6)</b>	<b>\$ (5.1)</b>	<b>\$ (5.5)</b>

<sup>1</sup> Includes investment and interest income.

<sup>2</sup> Excludes an FY2016 change in accounting estimate of \$1.1 billion due to a reevaluation of prepaid postage and a temporary exigent surcharge in FY2014, FY2015 and FY2016. Includes investment income.

<sup>3</sup> Excludes RHB pre-funding, normal cost, amortization and actuarial revaluation; non-cash adjustments to workers' compensation liabilities; and FERS and CSRS unfunded liabilities amortization, which are excluded from controllable expenses. Includes RHB premiums (FY2014–FY2016) and workers' compensation cash expenses.

<sup>4</sup> Total RHB normal cost in FY2017 was \$3.3 billion, of which \$2.8 billion was classified as a controllable expense. The remaining \$0.5 billion was classified as an RHB normal cost actuarial revaluation.

<sup>5</sup> Includes interest expense.

<sup>6</sup> During FY2016, we revised the technique used to estimate our deferred revenue - prepaid postage liability for Forever stamps. As a result of this change, deferred revenue - prepaid postage was decreased by nearly \$1.1 billion. In accordance with GAAP, the change was accounted for as a change in accounting estimate.

## **FY2017 Performance Report**

For FY2017, we had a controllable loss of \$0.8 billion, compared to our planned controllable income of \$0.1 billion. This result was primarily attributable to a shortfall in revenue.

### ***Revenue***

Revenue includes funds received from the sale of postage, mailing and shipping services; passports; P.O. Box rentals; gain on the sale or outlease of property; and interest and investment income. Our FY2017 total revenue of \$69.7 billion was \$1.0 billion less than planned, largely due to higher-than-expected First-Class Mail diversion and an unexpected drop in Marketing Mail.

First-Class Mail primarily consists of single-piece and presort letters and cards. Revenue from First-Class Mail was \$25.6 billion, \$0.4 billion below plan, due to continued and accelerated migration of consumers to electronic communication and transactional alternatives.

Marketing Mail consists of mail that we do not require customers to mail as First-Class or Periodicals and may include advertising, newsletters, catalogs, small marketing parcels and other printed matter. Revenue from Marketing Mail was \$16.6 billion, \$1.1 billion below the planned amount. This shortfall was due to a decline in volume of 2.6 billion pieces from FY2016, compared to the slight increase that was planned in the IFP. This decline was unexpected, given the relative stability of Marketing Mail volumes in recent years, the overall health of the economy and the impact of the 2016 election, which provided a boost in volume in the first weeks of FY2017.

Shipping and Packages consists largely of competitive services that can be priced to reflect current market conditions. These include Priority Mail and Priority Mail Express, business-oriented services such as Parcel Select and Parcel Return and First-Class Mail parcels and certain other package delivery services. Revenue from Shipping and Packages was \$19.5 billion, \$0.5 billion above the planned amount, due to e-commerce growth and the successful implementation of various marketing and sales campaigns.

International Mail includes services that enable customers, both domestic and abroad, to send international mail and packages, with either standard or express delivery options. The majority of our International Mail revenue is generated from outbound

services that allow customers in the U.S. to send mail and packages to other countries. Revenue from International Mail was \$2.7 billion, just below our plan, as larger-than-expected declines in letter mail volume were largely offset by growth in packages, which earn a significantly higher revenue per piece.

Periodicals mail is comprised primarily of newspapers, magazines and other periodical publications whose primary purpose is transmitting information to an established list of subscribers or requesters. Revenue from Periodicals was \$1.4 billion, in line with our plan. Decreases in hard-copy reading and shifts of advertising away from print have depressed this segment for several years.

Other revenue includes ancillary services, such as Certified Mail, P.O. Box services and Return Receipt services, and money order and passport services. Other revenue was \$3.9 billion, slightly above plan, due to a variety of factors affecting the various categories of service.

### ***Controllable Expenses***

Controllable expenses excludes certain items that we consider non-controllable, discussed in the "Non-Controllable Expenses" section. Our ability to affect the amount of controllable expenses is limited by various legal requirements, including our universal service obligation, our collective bargaining obligations and our obligation to participate in federal benefits programs. This section describes the various categories of controllable expenses and their performance in FY2017.

Compensation and benefits expenses include salaries, basic retirement and employee health benefit expenses for our active employees and worker's compensation cash outlays. These expenses were \$50.5 billion, \$0.2 billion less than planned, largely due to a higher-than-anticipated portion of the workforce being comprised of newer, less expensive employees.

RHB normal cost expense is the expense we incur to fund retirement health benefits for our active employees. Our normal cost of \$2.8 billion was \$0.1 billion less than planned due to a revision in the normal cost calculation by the Office of Personnel Management (OPM). (OPM subsequently revised the normal cost calculation to \$3.3 billion; this increase of \$0.5 billion was classified as a non-controllable expense, as described in the "Non-Controllable Expenses" section.)



Transportation expenses include the costs we incur to transport mail and other products between our facilities, including highway, air and international transportation contracts, plus contract delivery services. Transportation expenses do not include the compensation and benefits of employees responsible for transporting mail and other products between our facilities or to delivery points. The non-personnel costs of transportation to delivery points, excluding contract delivery services, are included in rent, utilities and other expenses. Total transportation expenses were \$7.2 billion, in line with our IFP. In FY2017, we negotiated more favorable rates from some of our contract air carriers, which favorably impacted our financial results. Highway transportation costs were pressured by inflationary cost increases.

Depreciation expenses allocate the cost of long-lived assets to the periods in which they are used. These assets include items such as buildings, equipment, vehicles, leasehold improvements and capitalized software. Depreciation expenses were \$1.7 billion, \$0.1 billion more than the IFP. This variance is largely attributable to higher-than-expected building depreciation resulting from improvements being made to older facilities with shorter remaining depreciable lives.

Supplies and services expenses include minor equipment, spare parts, furniture, services, cost of sales and office supplies. Supplies and services expenses in FY2017 were \$3.0 billion, in line with the planned amount.

Rent, utilities and other expenses includes the cost of leasing buildings, utilities, building repairs and alterations, vehicle fuel, information technology, interest expense and all other miscellaneous items. These items collectively cost \$5.3 billion, which was \$0.1 billion more than our plan. Vehicle fuel and maintenance expenses for our delivery fleet and information technology services largely accounted for the higher-than-expected spend.

### **FY2018 Performance Plan**

In FY2018, we plan for a \$1.4 billion controllable loss, driven by modest revenue growth, inflationary and contractual cost increases and an anticipated increase in the controllable portion of the RHB normal cost of \$0.7 billion.

### **Revenue**

Revenue is planned to increase by \$0.5 billion. This increase is driven entirely by increases in shipping and packages. First-Class Mail revenue is estimated to

decrease by \$0.8 billion due to continued electronic diversion, slightly offset by an anticipated 1.9 percent price increase. Marketing Mail revenue is estimated to decrease by \$0.4 billion, as we expect the decline in volume to continue but at a slightly reduced rate. Shipping and Packages revenue is estimated to increase by \$1.9 billion, due mainly to continued volume growth and market price increases. International revenue is estimated to increase marginally, due to volume and price increases. Periodicals revenue is estimated to decrease by \$0.1 billion and is not expected to rebound, as electronic content continues to grow in popularity. Other revenue is estimated to decrease by \$0.1 billion.

### **Controllable expenses**

Compensation and benefits expenses are planned to increase by \$0.2 billion, primarily due to contractually required wage increases. The impact of these wage increases will be mitigated by a larger portion of newer, less expensive employees. We also plan to reduce the number of work hours through increased efficiency. RHB normal cost expense is planned to increase by \$0.7 billion over the FY2017 controllable amount due to the ongoing impact of changes in actuarial assumptions implemented by OPM in FY2017. Transportation expenses are estimated to increase by \$0.1 billion, largely due to growth in package volume and inflationary pressures. Depreciation and supplies and services expenses are expected to remain flat. Rent, utilities and other expenses are estimated to increase by \$0.1 billion due to normal inflationary pressures.

### **Non-Controllable Expenses**

Our financial results are significantly impacted by expenses that are not reflective of our operational decisions and are subject to large fluctuations that are outside our control. We label these expenses "non-controllable." Fluctuations in these expenses are caused by changes in actuarial assumptions, such as interest and inflation rates, and employee and retiree demographics. We can only influence these expenses over the long-term by changing the number of employees or compensation rates, and this effect is very small and gradual compared to the impact of external factors. For example, a 1% change in 10-year treasury rates can cause an increase or decrease in workers' compensation liability of approximately \$2 billion.

Non-controllable expenses include revaluations of the Postal Service Retiree Health Benefits (RHB) Fund normal cost by OPM; the amortization of our unfunded RHB liabilities; the amortization of our unfunded liabilities for our participation in the Federal Employees Retirement System (FERS) and Civil Service Retirement System (CSRS); and non-cash expenses related to the changes in our liability for participation in the federal workers' compensation program. We exclude these items from the calculation of controllable income (loss) and explain them in the following paragraphs.

The RHB normal cost revaluation expense of \$0.5 billion in FY2017 accounts for the increase in the RHB normal cost charged by the OPM over its previous estimate. Our 2017 IFP included \$2.9 billion for RHB normal cost as part of compensation and benefits, included in controllable expenses, based on projections from OPM. During FY2017, OPM revised its normal cost calculation, first to \$2.8 billion, and then to \$3.3 billion. As this \$0.5 billion increase in RHB normal costs was due to changes in the actuarial assumptions by OPM, we treated this amount as non-controllable. There is no plan for a normal cost revaluation expense in FY2018 as we cannot predict calculation changes by OPM.

OPM calculates the RHB unfunded liability amortization expense to allow us to meet our unfunded liability obligations in the RHB program. The 2017 IFP included \$2.9 billion in expense, based on the most recent OPM data available at the time we published the IFP. This amount is based on the assumption that OPM would require that the entire \$52.1 billion unfunded liability be amortized. The actual billed amount in FY2017 was \$1.0 billion. This lower amortization requirement was based on an unfunded liability that did not include the \$33.9 billion in previously billed, but unpaid, RHB prefunding. Rather, OPM states that the entire \$33.9 billion that was unpaid as of September 30, 2016, and remains unpaid, is due currently and that only the remaining \$18.2 billion unfunded liability should be amortized. Based on the latest available information, the FY2018 IFP includes a \$1.2 billion expense for RHB unfunded liability amortization.

OPM calculates FERS and CSRS unfunded liability amortization payments to allow us to meet our unfunded liability obligations in the FERS and CSRS programs. We consider these expenses non-controllable because the amount depends on actuarial assumptions, including

interest and inflation rates, over which we have no control. FY2017 planned expenses for FERS and CSRS amortization were \$0.2 billion and \$1.2 billion, respectively, based on the most recent data available at the time we published the IFP. The actual charged amounts in FY2017 were \$0.9 billion and \$1.7 billion, respectively, largely due to changes in economic assumptions by OPM. Our FY2018 IFP includes CSRS and FERS amortization expenses equal to their actual FY2017 values.<sup>4</sup>

GAAP requires us to record our September 30, 2017 workers' compensation liability based on the prevailing interest rates on that date. The adjustment to the liability is non-controllable, as it is a function of events taking place in the general economy and well outside our control. We do not plan for this adjustment in our IFP, as we cannot predict future interest rates. In FY2017, we recorded a reduction in the workers' compensation liability of \$2.2 billion, which is largely the result of prevailing interest rates being higher than the prior year.

### Deliveries per Total Work Hours, % Change

Deliveries per total work hours (DPTWH) is a measure of our overall efficiency. It is calculated by multiplying the total possible deliveries by the number of delivery days and dividing that product by total work hours. We target our percent improvement in DPTWH from year to year.<sup>5</sup>

We adjust work hours to reflect changes in workload compared to the prior year. This adjustment accounts for changes in the network size (the addition of delivery points) and changes in the mix of mail types (for example, a package usually contributes much more to workload than a letter or flat). The adjustment ensures that DPTWH is comparable from year to year.

Finally, the percent change in DPTWH is calculated by comparing the current year DPTWH (based on adjusted work hours) with prior year DPTWH (based on unadjusted work hours). The following table shows how the annual percent change in DPTWH is calculated:

<sup>4</sup> OPM periodically notifies us regarding its revaluation of unfunded CSRS and FERS retirement benefits. OPM calculates these obligations using government-wide data, rather than Postal Service-specific economic and demographic assumptions. In October 2017, OPM issued a new rule announcing its intent to calculate future unfunded retirement FERS obligations using Postal Service-specific demographic assumptions. The new rule did not mandate the use of government-wide versus Postal Service-specific economic assumptions, however.

<sup>5</sup> The indicator "Deliveries per Total Work Hours, % Change," was referred to as "Deliveries per Total Work Hours, % SPLY" in the FY2016 Annual Report to Congress.

## Deliveries per Total Work Hour Calculation

	FY2018 Plan	FY2017 Actual	FY2017 Plan	FY2016 Actual	FY2015 Actual	FY2014 Actual
Work hours (millions)	1,141	1,164	1,157	1,158	1,128	1,107
Less adjustment to work hours based on earned workload <sup>1</sup> (millions)	(4.0)	(5.4)	2.0	18.0	—	—
Adjusted work hours (millions)	1,145	1,169	1,155	1,140	1,128	1,107
Total deliveries (millions)	47,835	47,604	47,532	47,366	46,829	46,480
Deliveries per total work hours (unadjusted)	41.9	40.9	41.1	40.9	41.5	42.0
Deliveries per total work hours (adjusted)	41.8	40.7	41.2	41.6	41.5	42.0
Deliveries per total work hours, % change <sup>2</sup>	2.1%	(0.5)%	0.6%	0.1%	(1.1)%	1.0%

<sup>1</sup> We updated the DPTWH calculation method in FY2016 to recognize the impact of earned hours from changes in mail mix and the impact of Sunday delivery.

<sup>2</sup> The percent change in DPTWH is the percent difference between current year DPTWH (based on adjusted work hours) and prior year DPTWH (based on unadjusted work hours).

### FY2017 Performance Report

Package volume and delivery points grew in FY2017; however, letter and flat volumes decreased significantly. The number of deliveries grew by approximately 231 million, which is the net result of the addition of about 1.2 million new delivery points and a decrease in non-Sunday delivery days by one (from 304 to 303), as well as a small impact from increased Sunday deliveries. The FY2017 plan anticipated a 0.6 percent improvement in DPTWH. However, in FY2017, DPTWH decreased by 0.5 percent. Our large network makes it difficult to adjust work hours due to sudden, unexpected changes in volume. A rapid decrease in volume during the year contributed to us missing the DPTWH target.

### FY2018 Performance Plan

The FY2018 DPTWH target of 2.1 percent assumes we will capture work hour reductions from declining mail volume and from operational initiatives to improve efficiency. Some of these initiatives are described in the “High-Quality Service” and “Excellent Customer Experiences” performance plans, and others are listed in the section “Strategic Initiatives.”

## Other Productivity Measures

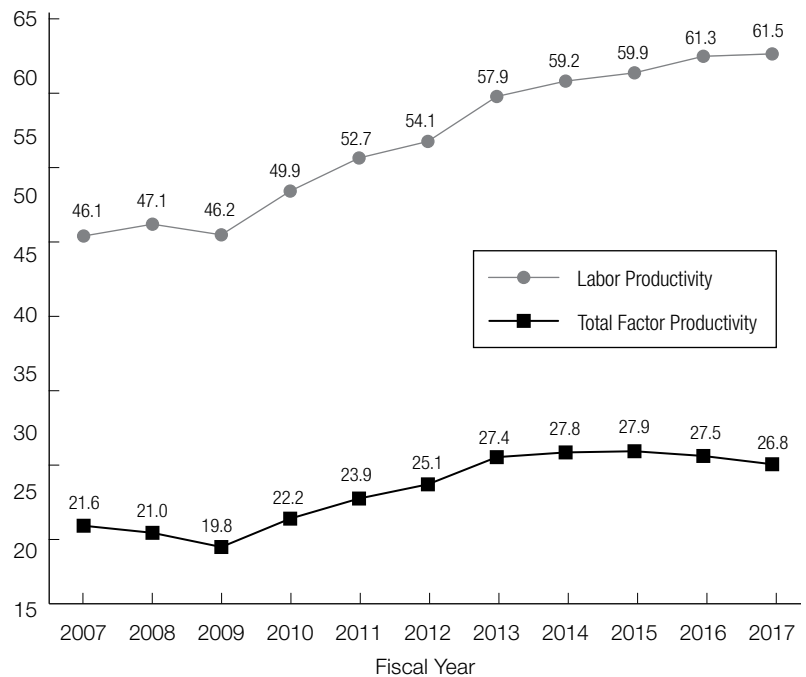
Total Factor Productivity (TFP) measures how efficiently we use our resources <sup>6</sup> An increase in TFP indicates that the ratio of work completed to the resources used is increasing and we are operating more efficiently Work completed depends on three primary components: 1) the number of delivery points, 2) mail volume weighted by product type and 3) miscellaneous output (such as other services we provide, including passport services)

Labor productivity measures the efficiency of labor An increase in the labor productivity index indicates that more workload is being handled per unit of labor

Labor productivity increased for the eighth year in a row in FY2017 TFP has increased significantly since FY2009, though it decreased slightly in FY2017 This decrease was largely attributable to a decline in mail volume, increased transportation expenses and increased investments A number of factors, including the decline in mail volume in recent years, has made it more challenging to generate additional productivity growth

For both indices, resource usage is based on the constant-dollar amounts of labor, capital and materials used Because some productivity improvements take years for the effects to be realized, it is more informative to consider changes in TFP and labor productivity over a period of years, rather than year-to-year The following chart starts with the cumulative TFP and labor productivity improvement from 1971 to 2007 and then shows the cumulative change each year since then:

**Total Factor Productivity and Labor Productivity, Cumulative Change Since 1971**



<sup>6</sup> We use DPTWH rather than TFP as our primary indicator for two reasons: 1) DPTWH is easier to understand and target at the area and district level and 2) DPTWH can be calculated in a more timely manner than TFP, allowing us to more quickly assess our performance.

## Strategic Initiatives

We have established strategic goals as described in our *FY2017–2021 5-Year Strategic Plan*. To achieve these goals, we have implemented a portfolio of strategic initiatives and a rigorous portfolio management process. This process is based on well-established methods to apply strategic and financial rigor to decision-making and to navigate significant organizational changes.

Each strategic initiative has a unique set of measures to track performance. The portfolio of initiatives is dynamic and changes as priorities and resources change, and as programs are completed or adjusted based on external events.

The changes to our initiatives from FY2017 to FY2018 fall into the following categories:

1. **New:** Initiative was created in FY2018 to address an emerging business need.
2. **Continued:** Initiative continued into FY2018 with minimal changes from FY2017.
3. **Moved:** Initiative was closed and its activities were incorporated into the relevant business unit's normal operations.
4. **Refined:** Initiative was modified to achieve greater alignment with organizational goals and the current business environment.
5. **Combined:** Initiative was combined with one or more similar initiatives to more accurately reflect the current business environment and provide greater alignment organizationally.

The following table shows the strategies from our 5-Year Strategic Plan, corporate-wide goals and the strategic initiatives implemented in FY2017 and planned for FY2018:

## FY2017 and FY2018 Strategic Initiatives

FY2017 Corporate Outcomes Supported						FY2018 Corporate Outcomes Supported					
Strategies from the FY2017–FY2021 5-Year Strategic Plan	FY2017 Strategic Initiatives	High-quality service	Excellent customer experiences	Safe workplace and engaged workforce	Financial health	Change from FY2017 to FY2018	FY2018 Strategic Initiatives	High-quality service	Excellent customer experiences	Safe workplace and engaged workforce	Financial health
Deliver World-Class Customer Experience	Build a World-Class Customer Experience	X	X	X		Combined	Build a World-Class Customer Experience	X	X	X	
	Create a World-Class Social Media Platform		X	X	X						
	Build a World-Class International Platform		X		X	Continued	Build a World-Class International Platform	X	X		X
Equip, Empower, & Engage Employees	Build a Culture of Engagement	X	X	X	X	Refined	Build a World-Class Employee Experience			X	X
	Deliver a Safe Workplace	X	X	X	X	Moved					
Innovate Faster to Deliver Value	Accelerate Innovation to Maximize Business Value	X	X	X	X	Continued	Accelerate Innovation to Maximize Business Value	X	X	X	X
	Develop an Innovation Framework	X	X	X	X	Moved					
	Accelerate Innovation to Maximize Customer Value				X	Combined	Accelerate Innovation to Create Customer Value and Maximize Revenue and Profit	X	X	X	X
	Implement Informed Delivery	X	X	X	X						
Invest in Our Future Platforms	Optimize Network Platform				X	Continued	Optimize Network Platform	X			X
	Optimize Delivery Platform	X	X		X	Combined	Delivery Structure Rationalization	X	X	X	X
	Optimize Retail and Customer Service Platform		X	X	X						
	Build a World-Class Package Platform	X	X		X	Continued	Build a World-Class Package Platform	X	X		X
	Build a Bench of Effective Leaders	X	X	X	X	Moved					
	Effectively Leverage Complement				X	X	Moved				

# Additional Information

For more information on our programs and policies, please visit [usps.com](https://usps.com)

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## Year References

All references to a specific year or “the year” refer to the Postal Service fiscal year ending September 30. However, specific month and year references pertain to the calendar date.

