GAO Highlights

Highlights of GAO-17-404T, a testimony before the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

USPS is a critical part of the nation's communication and commerce, delivering 154 billion pieces of mail in fiscal year 2016 to 156 million delivery points. However, USPS's mission of providing prompt, reliable and efficient universal services to the public is at risk due to its poor financial condition. USPS's net loss was $5.6 billion in fiscal year 2016, its tenth consecutive year of net losses. At the end of fiscal year 2016, USPS had $121 billion in unfunded liabilities, mostly for retiree health and pensions, and debt—an amount equal to 169 percent of USPS's revenues.

In July 2009, GAO added USPS's financial condition to its list of high-risk areas needing attention by Congress and the executive branch. USPS's financial condition remains on GAO's High-Risk List. In previous reports, GAO has identified strategies and options for USPS to generate revenue, reduce costs, increase the efficiency of its delivery operations, and restructure the funding of USPS pension and retiree health benefits. GAO has also previously reported that a comprehensive package of actions is needed to improve USPS's financial viability.

This testimony discusses (1) factors affecting USPS's deteriorating financial condition, (2) USPS's ability to make required retiree health and pension payments, and (3) considerations and choices Congress faces in addressing USPS's financial challenges. This testimony is based primarily on past GAO work that has examined USPS's financial condition—including its liabilities—and updated USPS financial information for fiscal years 2016 and 2017.

View GAO-17-404T. For more information, contact Lori Rectanus at (202) 512-2834 or rectanusl@gao.gov.

February 7, 2017

U.S. POSTAL SERVICE

Key Considerations for Restoring Fiscal Sustainability

What GAO Found

The U.S. Postal Service's (USPS) deteriorating financial condition is unsustainable as a result of trends including:

- *Declining mail volume*: First-Class Mail—USPS's most profitable product—continues to decline in volume as communications and payments migrate to electronic alternatives. USPS expects this decline to continue for the foreseeable future.
- *Growing expenses:* Key USPS expenses such as salary increases and work hours continue to grow, due in part to growth in shipping and packages, which are more labor-intensive. Compensation and benefits comprise close to 80 percent of USPS's expenses.

USPS's financial condition makes it unlikely it will be able to fully make its required retiree health and pension payments in the near future. In fiscal year 2016, when USPS was required to make $13.0 billion in retiree health and pension payments, it made $7.0 billion in payments—mainly due to not making a required retiree health payment of $5.8 billion. USPS's required payments have been restructured for fiscal year 2017 and are estimated to total $10.3 billion. USPS's ability to make these 2017 payments will be further challenged due to:

- *Expiration of a temporary "exigent" rate surcharge:* USPS has said the April 2016 surcharge expiration is reducing its revenues almost $2 billion annually.
- *No new major cost savings initiatives planned:* USPS made efforts in recent years to right-size its operations, but has no current plans to initiate major new initiatives to achieve cost savings in its operations.

Large unfunded liabilities for postal retiree health and pension benefits—which were $73.4 billion at the end of fiscal year 2016—may ultimately place taxpayers, USPS employees, retirees and their beneficiaries, and USPS itself at risk. As GAO has previously reported, funded benefits protect the future viability of an enterprise such as USPS by not saddling it with bills after employees have retired. Further, with USPS retirees participating in the same health and pension benefit programs as other federal retirees, if USPS ultimately does not adequately fund these benefits and if Congress wants these benefits to be maintained at current levels, funding from the U.S. Treasury—and hence the taxpayer—would be needed to maintain the benefit levels. Alternatively, unfunded benefits could lead to pressure for reductions in USPS benefits or pay.

Congress faces difficult choices and tradeoffs to address USPS's financial challenges. The status quo is not sustainable. Considerations for Congress include the (1) level of postal services provided to the public and the affordability of those services, (2) compensation and benefits for USPS employees and retirees in an environment of revenue pressures, and (3) tension between USPS's dual roles as an independent establishment of the executive branch required to provide universal delivery service and as a self-financing entity operating in a business-like manner.