



September 2021

U.S. POSTAL SERVICE PRIMER

Answers to Key Questions about Reform Issues

Accessible Version



A Century of Non-Partisan Fact-Based Work

GAO Highlights

Highlights of [GAO-21-479SP](#), a report to congressional requesters

Why GAO Developed This Primer

USPS is the largest postal service in the world, delivering an estimated 49 percent of all mail sent globally and playing a critical role in the nation's communications and commerce.

Congress designed USPS to be a self-sustaining entity that, like a business, would cover its operating costs primarily with revenues from selling certain products and services. However, starting in fiscal year 2007, USPS's expenses began exceeding its revenue. This has led to total net losses of \$87 billion from fiscal years 2007 through 2020, and \$188 billion in total unfunded liabilities and debt as of the end of fiscal year 2020.

GAO created this primer to help explain why USPS's financial condition has deteriorated so dramatically and to discuss some options for addressing the situation. GAO developed the key questions that it addresses here by reviewing relevant GAO reports to identify and summarize key findings and matters for congressional consideration. GAO also reviewed USPS documentation, including reports on costs and revenues, to update information from previous work, where appropriate.

What GAO Recommends

In prior work, GAO has recommended that Congress consider fundamentally reexamining key aspects of postal service in the United States.

View [GAO-21-479SP](#). For more information, contact David Trimble at (202) 512-2834 or TrimbleD@gao.gov or Frank Todisco at (202) 512-2700 or TodiscoF@gao.gov.

U.S. POSTAL SERVICE PRIMER

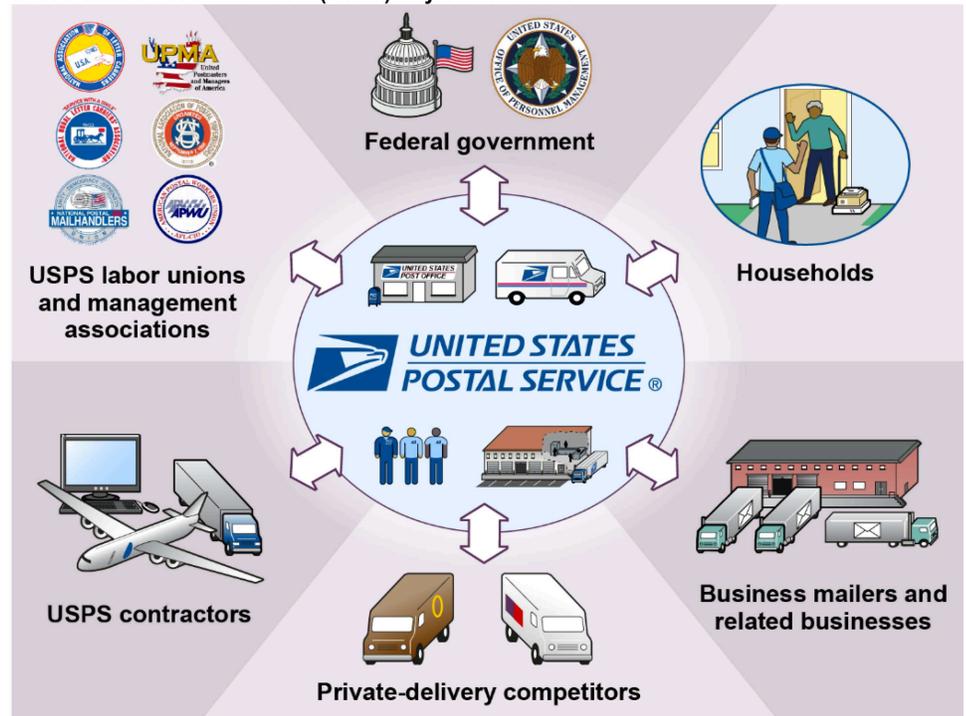
Answers to Key Questions about Reform Issues

What the Primer Includes

This primer explains how the U.S. Postal Service (USPS) works and why it needs reform, and discusses some options for addressing reform issues. GAO provides answers to questions about basic aspects of USPS and postal reform issues in a concise and easy-to-understand format. These answers are based largely on GAO's prior work.

This primer highlights key issues to help Congress consider the future of USPS, including consideration of the level of postal services the nation requires, the extent to which USPS should be financially self-sustaining, and the most appropriate institutional structure for USPS that best supports changes. USPS's financial viability has been on GAO's High-Risk List since 2009. USPS has made efforts to cut costs and adjust its operations to adapt to declining mail volumes. However, the cost savings from these efforts have dwindled in recent years. USPS must meet several statutory requirements and has a wide variety of stakeholders (see figure). Reaching compromise and agreement among stakeholders regarding further changes will be difficult. USPS's deepening financial problems could put its mission to provide universal postal service at risk, along with the well-being of its retirees and the repayment of its debt. Since 2010, GAO has stated that while USPS needs to cut its costs, congressional leadership and action are essential to restore USPS to financial viability.

United States Postal Service's (USPS) Key Stakeholders



Source: GAO. | GAO-21-479SP

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United States Senate

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House of Representatives

Introduction

The U.S. Postal Service (USPS) plays a critical role in the nation's communications and commerce. USPS is the largest postal service in the world, delivering an estimated 49 percent of all mail sent globally. USPS's financial viability has been on our High-Risk List since 2009 due to USPS's poor financial condition, which has worsened in recent years because of declining mail volumes, as online communication and payments have expanded, and rising costs.¹ For example, USPS's net losses totaled approximately \$87 billion from fiscal years 2007 through 2020, and its productivity has declined—a trend that has contributed to its cost pressures.² To address these challenges, USPS has taken a variety of actions such as providing increased self-service options and reducing facility hours. However, statutory requirements limit USPS's ability to make changes in areas such as certain service offerings, pricing, and its employee compensation and benefits. Further, USPS has been unable to make broad changes to address its financial and other challenges because Congress, USPS, and USPS's stakeholders—including labor unions, mailers, and competitors—have been unable to agree on how to

¹GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

²USPS's Total Factor Productivity (TFP) is an index that measures how efficiently USPS uses resources to handle all aspects of its workload. TFP has declined in 4 of the last 6 fiscal years. USPS primarily attributes the decline in fiscal year 2020 to increased transportation expenses, as well as personal protective equipment and cleaning supplies related to the COVID-19 pandemic. See USPS, *FY2020 Annual Report to Congress* (Washington, D.C.: December 2020).

do so. As a result, no postal reform legislation has been enacted since 2006.

This primer provides answers to questions about basic aspects of USPS and postal reform issues in a concise and easy-to-understand format. We provide straightforward answers to how USPS works, why it needs reform, and some options for addressing reform issues. The information is based largely on our prior work and is grouped into the following seven sections:

- USPS's mission.
- USPS's expenses and revenues.
- USPS's financial challenges, including how USPS continues to operate despite these challenges.
- Challenges related to USPS's retiree benefits.
- Constraints, such as legal requirements, that limit USPS's ability to improve its financial viability.
- Options for USPS to improve its financial viability, including what other countries have done to address postal challenges similar to those USPS faces.
- Actions Congress can take to improve USPS's business model.

For readers interested in a deeper and more detailed discussion, we include a list of related GAO products at the end of each of the sections.

To identify the key questions, or postal issues, we address in the primer, we reviewed relevant GAO reports to identify and summarize key findings and matters for congressional consideration. Detailed information about how we arrived at these findings and matters for congressional consideration is contained in the objectives, scope, and methodology section of each of our prior reports and testimony. We also reviewed USPS documentation, including documentation related to USPS's costs and revenues, to update information from previous work, where appropriate. We assessed the reliability of USPS's data—including mail volume, costs, and revenues—in USPS's reports and filings by reviewing the data for consistency, including year-to-year consistency, and for any outliers or obvious errors. In addition, we interviewed cognizant USPS officials about any changes in how USPS collected, analyzed, or presented the data from year to year. Based on the documents reviewed and the responses from USPS officials, we determined that these data were sufficiently reliable for our purposes.

We prepared this report from September 2020 to September 2021 under the authority of the Comptroller General in light of congressional interest in postal reform. We conducted the work upon which this report is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

USPS, an independent establishment of the executive branch, is overseen or regulated by the following two entities:

- **Board of Governors.** The Board of Governors, which is comparable to a board of directors at a publicly held corporation, oversees USPS. The Board selects the Postmaster General, directs and controls USPS expenditures, reviews USPS practices, conducts long-range planning, approves officer compensation, and sets policies on all postal matters. The Board consists of up to nine Governors appointed by the President of the United States by and with the advice and consent of the Senate. As of September 2021, the Board consisted of nine appointed Governors, the Postmaster General, and the Deputy Postmaster General.
- **Postal Regulatory Commission (PRC).** The PRC, an independent establishment of the executive branch, regulates USPS. The PRC makes annual determinations on how well USPS is complying with mail delivery standards and postal rate requirements.³ If the PRC finds noncompliance, it is required to order USPS to take appropriate actions to achieve compliance.⁴ The PRC is composed of five Commissioners, each of whom is appointed by the President, by and with the advice and consent of the Senate, for a term of 6 years.

In addition, federal law provides USPS with statutory monopolies to deliver letter mail and to access mailboxes. These monopolies protect USPS's revenues, which helps USPS fulfill its universal service mission.

³39 U.S.C. § 3653.

⁴39 U.S.C. § 3653.

- USPS's statutory letter delivery monopoly serves as a revenue protection measure so that USPS can meet its universal mail service obligation, which includes service to all communities and uniform rates for some mail.⁵ As a practical matter, mail covered by this monopoly primarily consists of First-Class Mail and Marketing Mail.
- With regard to USPS's mailbox monopoly, legislation enacted in 1934 prohibited the delivery of unstamped mail into mailboxes, essentially granting exclusive access to mailboxes ("mailbox monopoly") to USPS; this approach remains in place to this day.⁶ The U.S. Supreme Court upheld the constitutionality of the mailbox monopoly in 1981, stating that mailboxes are an essential part of national mail delivery and that postal customers agree to abide by laws and regulations that apply to their mailboxes in exchange for USPS agreeing to deliver and pick up mail.⁷ In addition, USPS regulations restrict which types of items may be placed upon, supported by, attached to, hung from, or inserted into a mailbox.⁸ The Postal Inspection Service, a part of USPS, is responsible for enforcing postal laws, including the restriction on placing mail without postage in mailboxes and laws that prohibit mail theft, obstruction of mail, and mail fraud.⁹

Over the years, legislation has changed key aspects of the business model used to provide the nation's postal services. Until 1970, the federal government provided postal services via the U.S. Post Office Department,

⁵USPS's letter delivery monopoly is codified in a set of criminal and civil laws called the Private Express Statutes. These laws generally prohibit anyone other than USPS from carrying letters for compensation on regular trips or at stated periods over postal routes or between places where mail regularly is carried. 18 U.S.C. §§ 1693-1699 and 39 U.S.C. §§ 601-606.

⁶18 U.S.C. § 1725.

⁷*U.S. Postal Service v. Council of Greenburgh Civic Ass'n*, 453 U.S. 114 (1981).

⁸Certain exemptions allow (1) mailable matter to be left without postage in door slots and nonlockable bins or troughs used with apartment house mailboxes; (2) mailable matter without postage to be attached to the post or other support for the mailbox; and (3) unstamped newspapers that are regularly mailed as Periodicals to be placed in certain curbside mailboxes on Sundays and national holidays, if they are removed before the next scheduled day of mail delivery. USPS Domestic Mail Manual (DMM) § 508.3, which is incorporated into the Code of Federal Regulations. 39 C.F.R. § 211.2(a).

⁹For example, see 18 U.S.C. §§ 1701, 1702, 1708, and 1341.

a government agency that received annual appropriations.¹⁰ At that time, Congress was involved in setting postal rates and wages. In addition, the President controlled the hiring and firing of Postmasters General, as it was a cabinet-level position. By the late 1960s, the department had several major problems including financial losses, management problems, service breakdowns, and low productivity. Because key postal business decisions were made by Congress through the legislative process, postal management had limited ability to plan and finance department operations and capital investments in accordance with postal needs.¹¹

To improve and modernize postal services, the Postal Reorganization Act (PRA) was enacted in 1970 and replaced the U.S. Post Office Department with USPS, an independent establishment of the executive branch of the government of the United States.¹² Congress designed USPS to be a self-sustaining, business-like entity that would cover its operating costs primarily with revenues generated through the sales of postage and postal-related products and services.¹³

However, by the early 2000s, USPS faced a bleak financial outlook that put its mission of providing universal postal service at risk, according to the 2003 Presidential Commission on the United States Postal Service.¹⁴ The Commission evaluated USPS's business model and concluded that

¹⁰In fiscal year 1971, the last fiscal year before USPS was created, the U.S. Post Office Department's appropriations were approximately 25 percent of its expenses and commitments.

¹¹In response to these growing challenges, President Lyndon B. Johnson appointed a commission to identify recommendations for improving the nation's postal services. In 1968, the commission, referred to as the "Kappel Commission," concluded that the U.S. Post Office Department should be restructured to become financially self-supporting and that management authority should be invested in a Board of Directors. See *President's Commission on Postal Organization, Towards Postal Excellence* (Washington, D.C.: June 1968).

¹²Pub. L. No. 91-375, 84 Stat. 719 (1970); 39 U.S.C. § 201.

¹³USPS received an annual appropriation as a general public service subsidy until 1982. See USPS, *The United States Postal Service: An American History, 1776-2006* (Washington, D.C.: Nov 2012). More recently, USPS has received annual appropriations for revenue forgone for providing (1) free and reduced rate mail for the blind and (2) overseas voting materials for U.S. elections. See, e.g., Pub. L. No. 116-260, div. E, tit. V, 134 Stat. 1182, 1423 (2020) (appropriating \$55.3 million for fiscal year 2021).

¹⁴President's Commission on the United States Postal Service, *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service*.

USPS must have greater flexibility to operate in a business-like fashion, but that this latitude required enhanced transparency to enable effective management and congressional oversight. The Postal Accountability and Enhancement Act (PAEA) was enacted in 2006.¹⁵ PAEA imposed a price cap on market-dominant products,¹⁶ required USPS to begin prefunding its retiree health benefits, and instituted provisions for increased transparency, oversight, and accountability, among other things.

In March 2021, USPS released a 10-year strategic plan aimed at addressing numerous issues USPS states it is facing, including a shift in demand towards packages and an underperforming air and surface transportation network.¹⁷ The plan proposes changes, such as streamlining the transportation network for processing and delivery. USPS also plans to slow down mail delivery service by one to two days for a portion of certain mail products to reduce some transportation costs and to evaluate its retail network to consolidate low-traffic facilities in metropolitan areas where alternative facilities are available. In addition, the plan includes over \$40 billion in capital investments over the next 10 years—the source of which is not specified—including USPS facility and equipment upgrades, improved retail lobby spaces, acquisition of new delivery vehicles, and technology upgrades. According to USPS, by implementing all of the strategies identified in the 10-year plan, it will operate with a positive net income beginning in fiscal year 2023 or fiscal year 2024. We have ongoing work assessing USPS's new strategic plan.

¹⁵Pub. L. No. 109-435, 120 Stat. 3198 (2006).

¹⁶USPS's products are divided into market-dominant and competitive categories. Specifically, USPS's market-dominant products are those for which it has a statutory monopoly or provides a large share of the product with limited competition. In an unregulated market, such a dominant market position would likely enable a firm to exercise market power under which it could set prices above cost without the risk of losing a significant level of business to other firms offering similar products. See 39 U.S.C. § 3642. Competitive products are all other products.

¹⁷USPS, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*. (Washington, D.C.: Mar. 23 2021).



Key question

What is USPS's mission?

Figure 1: U.S. Postal Service's Employees Provide Postal Services



Source: U.S. Postal Service. | GAO-21-479SP

Answer

USPS's mission is to provide prompt, reliable, and efficient universal postal service, and a federal statute requires USPS to "provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people."³⁵ USPS is required to serve, as nearly as practicable, the entire population of the United States.³⁶

Why does it matter?

While some private carriers provide certain services—such as delivery of packages and parcels—in competition with USPS, USPS is the only provider of universal postal service, which largely consists of mail products, such as letters, as well as packages and parcels.³⁷ These private carriers can choose where they deliver, whereas USPS generally must provide postal services to the entire population of the United States, including to those in rural areas. USPS plays a critical role in the nation's communications and commerce, and its services support a range of important public and private activities. In addition to delivering government mail—including election ballots—USPS services support commerce and personal mail that are essential to business and residential customers.

What you need to know

The Constitution grants Congress the power to establish post offices and post roads, which are the routes by which mail

³⁵39 U.S.C. § 101(a).

³⁶39 U.S.C. § 403(a).

³⁷USPS's universal service obligation is governed by several statutory provisions, including the requirement to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. See 39 U.S.C. §§ 101(b), 3691(b)(1)(B).

travels. The Postal Reorganization Act, enacted in 1970, states, “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 Act of Congress, and supported by the people.”³⁸

In April 2020, USPS’s Board of Governors (comparable to the board of directors of a publicly held corporation) adopted a mission statement for USPS, which lays out three points that summarize its mission: (1) to serve the American people and, through the universal service obligation, bind our nation together by maintaining and operating our unique, vital, and resilient infrastructure. (For more information, see “[What is universal postal service?](#)”); (2) to provide trusted, safe, and secure communications and services between our Government and the American people, businesses and their customers, and the American people with each other; and (3) to serve all areas of our nation, making full use of evolving technologies.

Related GAO Reports

- U.S. Postal Service: Congressional Action Is Essential to Enable a Sustainable Business Model ([GAO-20-385](#))
- U.S. Postal Service: Expanding Nonpostal Products and Services at Retail Facilities Could Result in Benefits, but May Have Limited Viability ([GAO-20-354](#))
- U.S. Postal Service: Additional Guidance Needed to Assess Effect of Changes to Employee Compensation ([GAO-20-140](#))
- U.S. Postal Service: Offering Nonpostal Service through Its Delivery Network Would Likely Present Benefits and Limitations ([GAO-20-190](#))
- U.S. Postal Service: Projected Capital Spending and Processes for Addressing Uncertainties and Risks ([GAO-18-515](#))
- U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability ([GAO-10-455](#))

³⁸Pub. L. No. 91-375, § 2, 84 Stat. 719, 719 (1970) (codified at 39 U.S.C. § 101).



Key question

What is universal postal service?

Figure 2: Examples of How the U.S. Postal Service (USPS) Provides Postal Services



A USPS vehicle travels through a snowstorm.

Source: United States Postal Service. | GAO-21-479SP



USPS delivers election mail, such as ballots.



USPS uses mules to transport mail in the Grand Canyon.

Answer

“Universal postal service” means that USPS is required to serve, as nearly as practicable, the entire population of the United States. In fiscal year 2020, USPS reported a total mail and package volume of over 129 billion items to more than 161 million delivery points, via over 231,000 delivery routes.

Why does it matter?

To provide universal postal service, USPS maintains the largest physical and logistical infrastructure of any non-military government institution. USPS expenses exceeded revenues by a combined \$18 billion in fiscal years 2019 and 2020 and operational changes aimed at reducing costs can have implications for USPS's ability to fulfill its universal service obligation and for the quality of its service to customers.

What you need to know

USPS's universal service obligation refers generally to several statutory provisions concerning the geographic scope, accessibility, and quality of postal services. A core provision obligates USPS to “bind the Nation together through the personal, educational, literary, and business correspondence of the people” and “provide prompt, reliable, and efficient services to patrons in all areas.”³⁹ USPS's fees and rates must be “fair and reasonable.”⁴⁰ Other provisions include requirements for USPS to “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining”⁴¹ and to establish and maintain postal facilities so that patrons nationwide have “ready access to essential postal services.”⁴²

³⁹39 U.S.C. § 101(a).

⁴⁰39 U.S.C. § 403(a).

⁴¹39 U.S.C. § 101(b).

⁴²39 U.S.C. § 403(b).

To carry out its universal service obligation, USPS has developed a vast mail collection, processing, transportation, and delivery network. Given the expansive network needed to reach every address, mail delivery is a large cost area for USPS, and USPS has taken actions with the stated goal of improving efficiencies and reducing costs in its mail delivery activities. In fiscal year 2020, USPS reorganized its Retail and Delivery Operations areas and reduced the number of these areas from seven to four. It also made changes to aid in mail processing and logistics.

However, as we have previously reported, fulfilling USPS's universal service obligation can be expensive, and USPS lacks authority to make certain changes that could reduce delivery costs. Federal law imposes requirements regarding the level of postal services USPS is to provide, postal products, and pricing. (See [app. I](#) for more information on selected legal requirements applicable to USPS and "[What limits USPS's ability to respond to declining mail volumes and associated revenues?](#)") Specifically, USPS is required to provide 6-day-a-week delivery and to operate postal facilities across the country. Federal law also limits USPS's ability to close retail facilities. For example, no small post office can be closed solely for operating at a deficit. USPS does have the authority to make other changes that could reduce costs, such as converting from more expensive delivery modes, like delivery to a customer's door, to less expensive ones, such as delivery to a curbside mailbox (i.e., a mailbox at a curb). However, USPS must request an advisory opinion from the PRC for changes that would generally affect service on a nationwide or a substantially nationwide basis.

Related GAO Reports

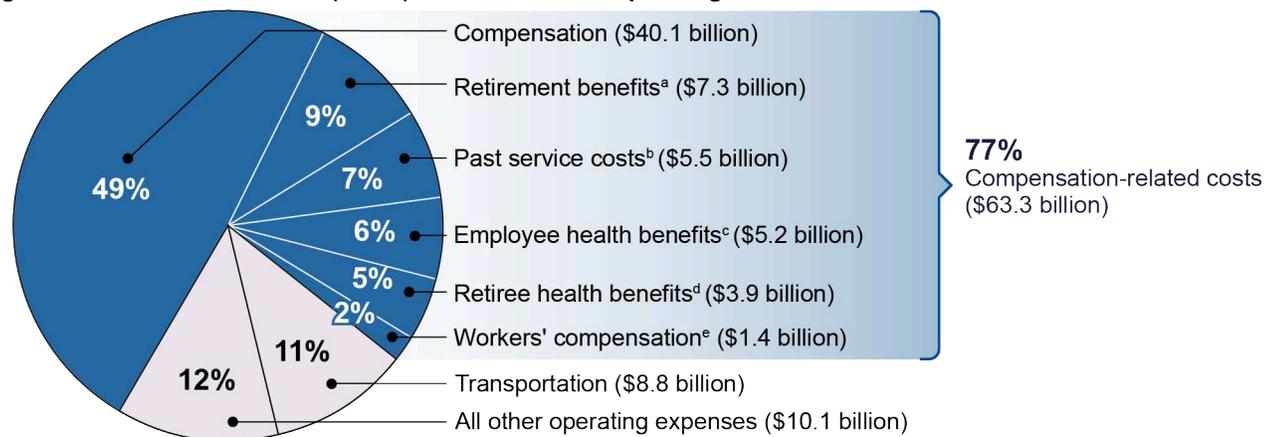
- U.S. Postal Service: Congressional Action Is Essential to Enable a Sustainable Business Model ([GAO-20-385](#))
- U.S. Postal Service: Additional Guidance Needed to Assess Effect of Changes to Employee Compensation ([GAO-20-140](#))
- U.S. Postal Service: Addressing Policy Gaps Could Improve Pilot Design and Evaluation for Postal Innovations ([GAO-19-293](#))
- U.S. Postal Service: Actions Needed to Make Delivery Performance Information More Complete, Useful, and Transparent ([GAO-15-756](#))
- U.S. Postal Service: Delivery Mode Conversions Could Yield Large Savings, but More Current Data Are Needed ([GAO-14-444](#))



Key question

What are USPS's key costs?

Figure 3: U.S. Postal Service's (USPS) Fiscal Year 2020 Operating Costs



Source: GAO analysis of data from United States Postal Service 2020 report from 10-K. | GAO-21-479SP

Note: Percentages do not always add up due to rounding.

^aIncludes the cost of future pension benefits under Federal Employees Retirement System (FERS) attributable to employee service rendered in the fiscal year (\$3.8 billion), plus employer contributions to the Thrift Savings Plan (\$1.2 billion), plus the employer portion of Social Security payroll taxes (\$2.3 billion).

^bIncludes amortization costs (required payments to reduce unfunded liabilities) for Civil Service Retirement System pension benefits (\$1.8 billion), FERS pension benefits (\$1.3 billion), and retiree health care benefits (\$0.8 billion); plus the effect of revised estimates of the liabilities for existing workers' compensation cases (\$1.5 billion—this last item can vary widely from year to year and can be either positive or negative). These amounts add up to \$5.4 billion, versus the \$5.5 billion on the pie chart, due to rounding.

^cIncludes USPS's share of employee health insurance premiums plus the employer portion of Medicare payroll taxes.

^dThe cost of future retiree health benefits attributable to employee service rendered in the fiscal year.

^eIncludes the cost of new cases (new injuries incurred in the fiscal year) plus administrative costs.

Answer

USPS's key costs are related to employee compensation, which represented about 77 percent of USPS's total operating expenses in fiscal year 2020.

Why does it matter?

USPS is expected to be financially self-sufficient, meaning that it is supposed to cover its expenses through revenues generated from the sale of its products and services. However, USPS's revenues do not cover its expenses, and expenses are growing faster than its revenues, in part due to rising compensation and benefits costs combined with continuing declines in First-Class Mail volume. (For more information, see ["How is USPS still operating after losing so much money?"](#) and ["What has USPS done to cut costs?"](#).)

What you need to know

USPS's labor costs account for over three-quarters of USPS's total costs. A number of restrictions limit USPS's ability to control employee compensation and benefits costs, including costs related to retiree health benefits. These costs are driven by a mix of USPS contracts and policies, including collective bargaining agreements negotiated with unions representing approximately 90 percent of USPS employees, and statutory requirements governing USPS employee pay and benefits. When USPS and its unions are unable to agree, the parties are eventually required to enter into binding arbitration by a third-party panel. USPS's collective bargaining agreements with these labor unions, some of which were established through binding arbitration, have instituted salary increases and cost-of-living adjustments. The bargaining agreements have also capped the number of non-career employees—employees, who do not receive the full range of benefits (e.g., health and retirement) received by career employees—at approximately 20 percent of the number of employees covered by the agreements.⁴³ Additionally, federal law requires USPS to participate in the Federal Employees Health Benefits Program, which covers current employees and retirees, as well as federal pension and workers' compensation programs.⁴⁴

USPS has reported that, without legislative changes to give it flexibilities it has stated it needs to control costs, it does not have the financial resources to carry out its primary mission, make certain required federal payments to fund retiree health benefits and pension benefits, or meet its capital investment needs. (For more information, see “When will the Retiree Health Benefits Fund run out of money?”.) To address its financial problems, USPS has taken some actions to address employee compensation costs—the largest share of USPS's overall costs. Although USPS has had some success in reducing certain costs, we found in January 2020 that USPS had likely overestimated cost savings from various actions. The Coronavirus Disease 2019 (COVID-19) pandemic has also increased USPS's costs significantly, in part due to higher sick-leave use.

Figure 4: Concept Drawing of the U.S. Postal Service's (USPS) Next Generation Delivery Vehicle



Source: United States Postal Service. | GAO-21-479SP

⁴³In addition to being classified by occupation type (e.g., letter carrier and mail handler), USPS employees are also divided into “career” and “non-career” employees. Career employees are considered permanent and receive a range of benefits (e.g., health and retirement) and privileges. USPS stated that non-career employees include those with lower-paid positions such as city carrier assistants and postal support employees and temporary employees hired during times of large mail volume such as holidays.

⁴⁴39 U.S.C. § 1005(f) (USPS is required to participate in the Federal Employees Health Benefits Program (FEHBP) unless USPS and its unions agree to an alternative health benefits program); 5 U.S.C. § 8901 et seq. (The Federal Employees Health Benefits Program); 39 U.S.C. § 1005(d) (Requirement to participate in federal pension programs); 39 U.S.C. § 1005(c) (Requirement to participate in the Federal Employees' Compensation Act workers' compensation program).

Note: In February 2021, USPS announced it had awarded a 10-year contract to manufacture a new generation of postal delivery vehicles. Under the contract, USPS made an initial investment of \$482 million for the manufacture of 50,000 to 165,000 vehicles. According to USPS, the contract is the first part of a multi-billion-dollar 10-year effort to replace the USPS's delivery vehicle fleet.

What has been done?

USPS's compensation and benefits costs for current employees have been increasing since 2014, despite USPS's efforts to control these costs. Although USPS reduced its total workforce (career and non-career employees) from 785,900 in fiscal year 2007—the year in which USPS's expenses began consistently exceeding revenues—to 617,700 in fiscal year 2013, its workforce increased to over 640,000 in fiscal year 2020.

USPS did not make \$63.25 billion in required payments to fund postal retiree health and pension benefits through fiscal year 2020.⁴⁵ USPS reported that it did not make these payments so that it could cover current and anticipated operating costs, deal with contingencies, and make needed capital investments. USPS has also stated that under its current business model, it anticipates that it will run out of cash on hand even if it continues to not make all of these required funding payments. However, defaulting on these funding payments could have a significant effect on USPS's postal retirees and their surviving dependents, adds to USPS's already large unfunded liabilities, and affects USPS's ability to become more financially viable in the long-term.

Related GAO Reports

- High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas ([GAO-21-119SP](#))
- U.S. Postal Service: Additional Guidance Needed to Assess Effect of Changes to Employee Compensation ([GAO-20-140](#))

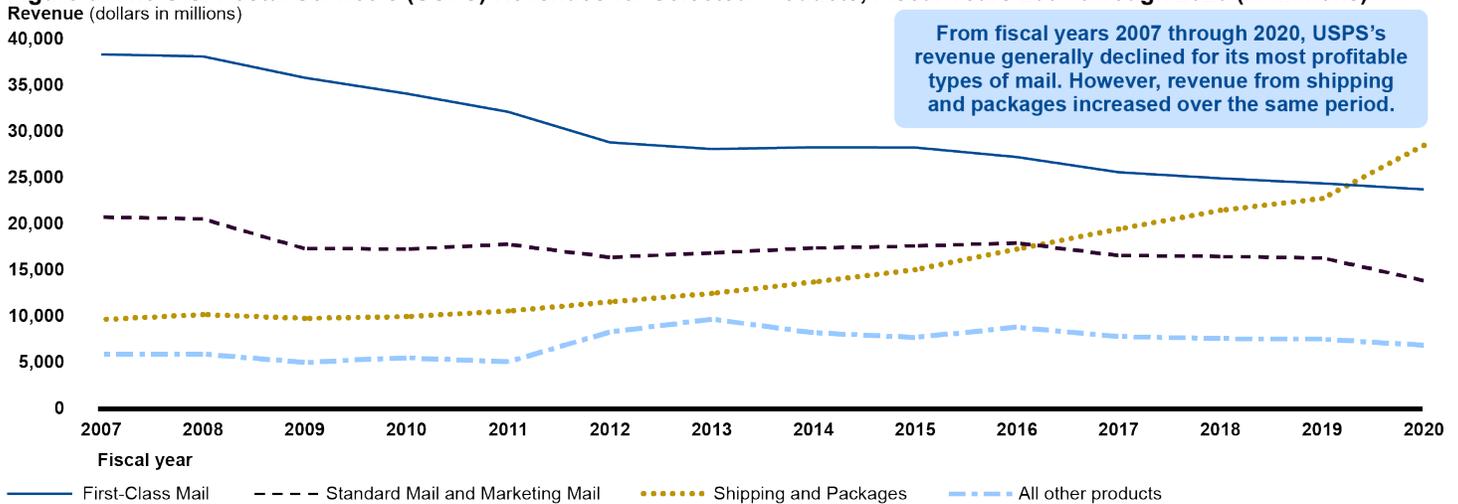
⁴⁵In its 2020 Form 10-K financial report, USPS rounded the amount of required payments it has not made to fund postal retiree health and pension benefits through fiscal year 2020 to \$63.3 billion. USPS, *2020 Report on Form 10-K* (Washington, D.C.: Nov. 13, 2020).



Key question

What are USPS's primary sources of revenue?

Figure 5: The U.S. Postal Service's (USPS) Revenues for Selected Products, Fiscal Years 2007 through 2020 (in Millions)



From fiscal years 2007 through 2020, USPS's revenue generally declined for its most profitable types of mail. However, revenue from shipping and packages increased over the same period.

Source: GAO analysis of U.S. Postal Service data. | GAO-21-479SP

Answer

USPS earns most of its revenues through its delivery of mail and packages. For some mail products, such as First-Class Mail and Marketing Mail, USPS provides either all or a large portion of the service. Because of this dominant market position, USPS is subject to a regulatory price cap on these products, under which price increases are constrained based on factors that are largely outside of USPS's control such as the rate of inflation and retirement amortization payments. USPS also provides other services—such as package delivery—in competition with providers such as FedEx, the United Parcel Service (UPS), and Amazon.

Why does it matter?

The decline in USPS's more profitable market-dominant products is a key cause of its financial troubles. USPS's revenues do not cover its costs. In fiscal year 2020, total unfunded liabilities and debts exceeded 250 percent of annual revenue. (For more information, see "How is USPS still operating after losing so much money?") A broad USPS response to the decline in revenues is difficult because both statutory requirements and diverse stakeholder views constrain policy change. (See app. I for selected legal requirements applicable to USPS.)

What needs to be done?

Addressing declining mail volume and revenue, which are key aspects of USPS's business difficulties, might best be achieved through a comprehensive examination of the implications of Americans' changing use of mail for the business and organizational structure of USPS. We recently recommended that Congress consider evaluating interrelated matters to reassess the foundational elements of USPS's business model to determine the level of postal services the nation needs now and in the future.

Such a wide-ranging examination of these factors would align with how several other countries tackled similar issues facing their postal entities (known as "foreign posts") and the broader delivery sector. Like USPS, some

foreign posts have experienced challenges from changes in the use of mail, including declines in volume and revenues of core postal products. Some foreign posts and governments have taken actions directly aimed at enhancing revenues. For example, some have: (1) placed increased focus on growing the package delivery service, (2) allowed postal rates to rise in excess of inflation, and (3) allowed their posts to enter new lines of nonpostal business, such as banking services. (For more information, see “What have other countries done to address postal challenges?”.)

What you need to know

USPS earns revenues primarily from the sale of postal products. The three largest sources of revenues are First-Class Mail, Marketing Mail, and shipping and package delivery. A subset of USPS’s package delivery revenues derive from other delivery companies handing off some packages to USPS for “last mile” delivery over USPS’s ubiquitous delivery network. Lesser sources of revenues include the delivery of periodicals, international mail, and other miscellaneous products and services, such as certified mail, money orders, and packaging materials. USPS generally receives a small federal appropriation each year to cover costs of certain items it sells at reduced prices, such as services for the blind.

USPS enjoys revenue protection through the grant of two monopolies. USPS’s monopoly on the delivery of letter mail includes both First-Class Mail and Marketing Mail. USPS also maintains monopoly access to mailboxes, which effectively grants it the sole right to place mail into residential or business mailboxes. In addition to the monopolies, the breadth of USPS’s postal network has also afforded it a dominant market position in certain other mail products.

In the markets where USPS competes against other providers—such as FedEx, UPS, and Amazon in the package delivery market—USPS has more pricing flexibility, although there are also some pricing limitations to ensure fair competition. Volume and revenues in the shipping and package delivery market have been rising, but profit margins in these markets are thinner than margins for some USPS market-dominant products. Thus, recent downward trends in the volumes and revenues of market-dominant products have contributed to an erosion of USPS’s financial status. Moreover, USPS’s competitors in the package market are expanding their networks and investing in new technologies (such as drone delivery) which could lead these companies to rely less on USPS for last mile delivery in the future.

What has been done?

Congress has not passed any postal reform since the Postal Accountability and Enhancement Act in 2006. We have reported over the past 10 years that USPS’s ability to take actions under its current authority is insufficient to fully address its financial situation and that while USPS needs to cut its costs, congressional action is essential to restore USPS to financial viability.

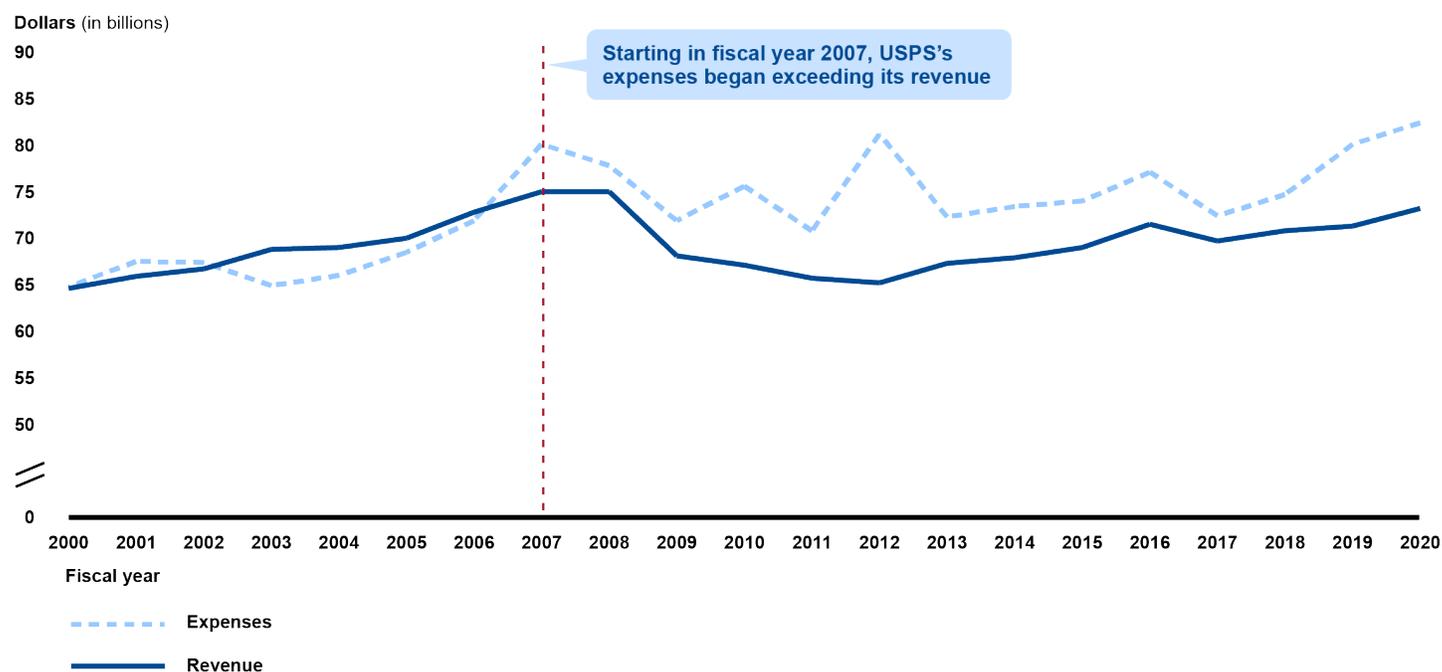
Some postal stakeholders have called for USPS to take actions similar to those taken by foreign posts to increase revenues. In particular, these stakeholders have called for regulatory changes that would enable USPS to raise rates on market-dominant products by more than the rate of inflation. Consistent with these proposals, the PRC recently granted USPS additional rate adjustment authority for market-dominant products, and the PRC has since approved USPS’s proposal to use its rate adjustment authorities to increase prices effective August 29, 2021. Stakeholders have also called for legislative changes that would allow USPS to provide new nonpostal products. However, other stakeholders have not looked favorably upon the prospect of USPS taking such actions. We recently examined the viability of allowing USPS to leverage its broad networks in its delivery routes and retail (e.g., post offices) functions to provide new nonpostal services. We found that, though some new services could provide public benefits, the additional revenue that would accrue to USPS would not likely be substantial. Moreover, providing such services could add to USPS’s costs and pose certain risks. (For more information, see “Would offering additional nonpostal products and service improve USPS’s financial viability?”.)



Key question

How is USPS still operating after losing so much money?

Figure 6: U.S. Postal Service (USPS) Expenses and Revenue, Fiscal Years 2000--2020



Source: U.S. Postal Service. | GAO-21-479SP

Answer

USPS has been able to continue operating by increasing its debt and unfunded liabilities—including not making \$63.25 billion in required payments to fund postal retiree health and pension benefits through fiscal year 2020—an approach that is not sustainable going forward.

Why does it matter?

If USPS's expenses continue to exceed its revenue, its ability to continue operating and providing universal postal service will be at risk, with potential worldwide effects. Further, USPS might not be able to meet its liabilities, potentially affecting postal retirees as well as postal customers and other stakeholders, including taxpayers and the federal government.

What needs to be done?

USPS's current business model is no longer viable and congressional action is essential to enable a sustainable business model. In 2020, we found that part of a fundamental reassessment of USPS's business model would include determining whether USPS should be required to be financially self-sustaining. That is, such a reassessment should consider how much of USPS's costs (given that USPS is generally required to service the

entire population of the United States) should be covered by the revenue USPS earns from ratepayers such as businesses and individuals who pay USPS to deliver mail.

What you need to know

Congress designed USPS to be financially self-sustaining.⁴⁶ However, USPS's expenses began consistently exceeding revenues in fiscal year 2007, leading to its \$87 billion in total net losses from fiscal years 2007 through 2020, and its \$188 billion in total unfunded liabilities and debt as of the end of fiscal year 2020.

USPS has the authority to borrow up to a statutory limit of \$15 billion from the U.S. Treasury to help cover its operating expenses. At the end of fiscal year 2020, USPS's unfunded liabilities and debt totaled more than 250 percent of its annual revenue. By comparison, in fiscal year 2007, USPS's unfunded liabilities and debt were about 99 percent of its annual revenue. In 2020, USPS received authority to borrow up to an additional \$10 billion from the U.S. Treasury to cover operating expenses related to the COVID-19 pandemic; this money does not have to be repaid.

What has been done?

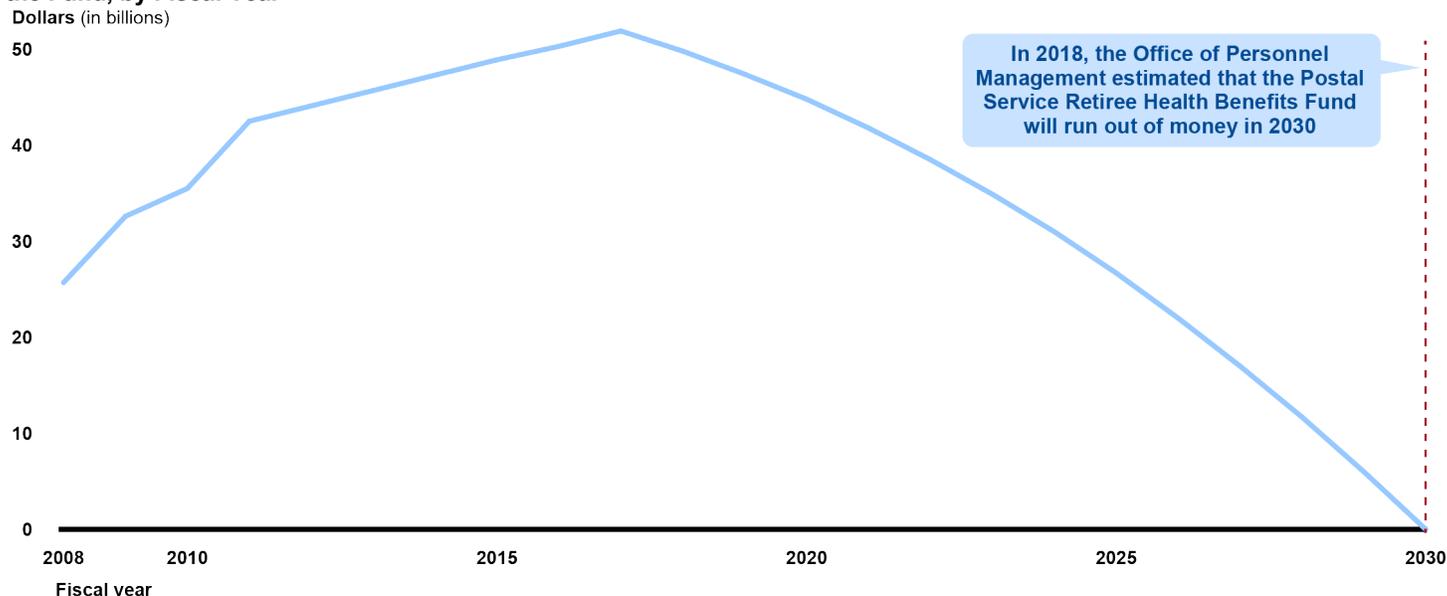
USPS has taken steps to reduce its operating costs as its mail volume continues to decline, has increased prices within its statutory authority to increase revenue, and has supported legislation to reduce its liabilities. However, USPS's overall financial condition has continued to deteriorate and savings from USPS's cost-reduction efforts have dwindled in recent years. Statutory requirements limit USPS's ability to make changes in areas such as certain service offerings, pricing, and its employee compensation and benefits. Moreover, USPS has faced stakeholder opposition—including from members of Congress, postal unions, and local communities—to many potential operational changes, some of which would reduce services. (For more information on USPS stakeholders' views on proposed operational changes, see ["How do stakeholders' interests and views affect USPS's ability to make changes to its operations?"](#).) While no postal reform legislation has been enacted since 2006, the PRC recently granted USPS additional rate adjustment authority for market-dominant products, and the PRC has since approved USPS's proposal to use its rate adjustment authorities to increase prices effective August 29, 2021.⁴⁷

⁴⁶ USPS received an annual appropriation as a general public service subsidy until 1982. See USPS, *The United States Postal Service: An American History, 1776-2006* (Washington, D.C.: November 2012). More recently, USPS has received annual appropriations for revenue forgone for providing (1) free and reduced rate mail for the blind and (2) overseas voting materials for U.S. elections. See, e.g., Pub. L. No. 116-93, div. C, tit. V, 133 Stat. 2317, 2477 (2019). Congress appropriated about \$56.7 million to USPS for these purposes in fiscal year 2020. USPS earned \$73.1 billion in operating revenue in fiscal year 2020.

⁴⁷The PRC adopted a final rule granting this additional rate adjustment authority in November 2020. POSTAL REGULATORY COMMISSION, Order 5763, Docket No. RM2017-3 (Nov. 30, 2020). In July 2021, the PRC issued an order approving USPS's proposal to raise rates. POSTAL REGULATORY COMMISSION, Order 5937, Docket No. R2021-2 (July 19, 2021).

Key question
When will the Postal Service Retiree Health Benefits Fund (RHB Fund) run out of money?

Figure 7: Actual and Projected Balance of the Postal Service Retiree Health Benefits Fund, Assuming No Further Payments into the Fund, by Fiscal Year



Source: GAO evaluation of Office of Personnel Management projections. | GAO-21-479SP

Note: This figure is based on actual Office of Personnel Management (OPM) data through fiscal year 2017 and OPM projections for fiscal year 2018 and subsequent fiscal years.

Answer

The Postal Service Retiree Health Benefits Fund is estimated to run out of money in 2030, according to a 2018 projection from the Office of Personnel Management.

Why does it matter?

About 500,000 postal retirees receive retiree health benefits. The RHB Fund pays for USPS's share of postal retirees' health insurance premiums. However, no consensus exists about what actions should be taken to address the growing financial shortfall for postal retiree health benefits. For example, various legislative proposals have been made to generally require postal retirees to participate in Medicare, which would increase their level of participation and decrease USPS's costs. Without action, a depleted RHB Fund could pose serious consequences for postal retirees as well as USPS, postal customers, and other stakeholders, including the rest of the federal government.

What needs to be done?

Congressional action is needed to make the Postal Service Retiree Health Benefits Fund (RHB Fund) financially sustainable. In 2018, we recommended that Congress consider passing legislation to put postal retiree health

benefits on a more sustainable financial footing. USPS stated that it concurred that congressional action was necessary to make the RHB Fund financially sustainable. We also identified potential policy approaches to address the financial sustainability of postal retiree health benefits, primarily based on a review of legislative proposals and pertinent literature on actions taken by private companies and states. (See app. II for a list of potential policy approaches.) We identified potential policy approaches that would shift costs to the federal government and change how benefits are financed (see table 1).

Table 1: Selected Potential Policy Approaches to Address the Postal Retiree Health Benefits (RHB) Fund

Approach	Description	Potential effects
Medicare integration	Various legislative proposals have been made to generally require postal retirees to participate in Medicare, which would increase their level of participation. While postal retirees are not currently required to enroll in Medicare Part A or B when they become eligible at age 65, they are allowed to enroll, and according to USPS approximately 92 percent of retirees voluntarily enroll in Part A and approximately 76 percent of retirees voluntarily enroll in Part B (these retirees pay Medicare's Part B premium). For those who enroll, participation in Medicare shifts primary responsibility for covering certain health care services to Medicare. Retirees generally must pay a premium to enroll in Medicare Part B.	Requiring retirees to use Medicare would decrease the U.S. Postal Service's (USPS) costs but increase Medicare's costs, according to Congressional Budget Office analyses of past legislation. The primary policy decision for Congress to make is whether to increase postal retirees' use of Medicare. USPS would still be responsible for its portion of retiree health benefits remaining after Medicare integration.
Eliminate prefunding	Recent proposed legislation would repeal, in full, the prefunding of retiree health benefits which was statutorily required in 2006. This proposal would not improve the financial sustainability of the RHB Fund. The fund would continue to be drawn down as benefits are paid.	USPS would not have to make future annual prefunding payments, but USPS would have to "pay-as-you-go" for the benefits in the future as employees retire after the RHB Fund is depleted. Since USPS has not been making these prefunding payments, there would be no effect on USPS's cash flow. In addition, eliminating the prefunding requirement may temporarily reduce USPS's reported net loss because some retiree health costs would be moved "off the books"—meaning no longer recognized as a cost in USPS's financial statements—but the unfunded liability for retiree health benefits would continue to grow, and USPS would still be responsible for the liability. This could increase costs for future postal ratepayers and increase the risk that USPS may not be able to pay for its share of the benefit. In contrast, prefunding can protect the long-term viability of USPS by not deferring payment of retiree health care costs to later when employees are already retired and no longer helping USPS generate revenue.
Allow outside investment	Proposed legislation would have initially required 25 percent of RHB Fund assets to be invested outside U.S. Treasury securities, with the goal of seeking greater returns.	Allowing outside investment could lead to a higher rate of return on RHB Fund assets and reduce long-term funding needs but could also introduce new risks, such as those that have been experienced in certain public and private sector pension plans. Return assumptions might be overly optimistic, and assets invested in non-Treasury securities could even experience losses in an economic downturn that could adversely affect USPS revenue at the same time. In addition, USPS has a relatively "mature" demographic profile—such as a high ratio of retirees to active workers—which might also suggest a cautious approach.

Sources: GAO and GAO review of legislative proposals. | GAO-21-479SP

Note: The policy approaches summarized in this table could be used, individually or in combination, to help address postal retiree health benefits. Even if successfully implemented, no single approach would be sufficient to make postal retiree health benefits financially sustainable.

What you need to know

The 2006 Postal Accountability and Enhancement Act (PAEA) established the RHB Fund and added a requirement for USPS to begin prefunding retiree health benefits. PAEA established a funding schedule that consisted of annual fixed-dollar funding amounts for fiscal years 2007 to 2016 and, for fiscal years 2017 and thereafter, an actuarially determined funding approach. This standard actuarial funding approach involves projecting future benefits for current USPS workers and retirees (*not* for any workers not yet hired or not yet born) and setting aside funding for these future benefits on an orderly schedule over an extended period of time. According to the Office of Personnel Management (OPM), if the RHB Fund is depleted, USPS becomes responsible for paying its share of premiums. Generally, postal retirees are statutorily entitled to remain enrolled in their Federal Employees Health Benefits Program (FEHBP) plans; therefore, if the fund is depleted and USPS does not pay its share of premiums, the providers of these FEHBP plans would be underpaid.⁴⁸ USPS officials have said that current law does not address what would happen if the RHB Fund is depleted and USPS does not make payments to cover its share of premiums. (See the textbox below for additional information on another key aspect of retiree benefits.)

What has been done?

USPS has not made its required payments to the fund since 2010. According to a 2018 OPM projection, the RHB Fund is projected to run out of money in 2030. USPS officials have repeatedly testified that USPS's required payments to the RHB Fund are "unaffordable" relative to its current financial situation and outlook. USPS has missed approximately \$51.9 billion in payments to the fund since 2010, and the fund's balance is declining. Beginning in fiscal year 2017, OPM started drawing from the fund to pay USPS's share of premiums for postal retirees' health benefits. Payouts from the RHB Fund in that year exceeded the fund's income from interest, and OPM projects that, based on the status quo, future payouts will continue to exceed the fund's income from interest.

Retiree Benefits: Allocation of Responsibility for CSRS Benefits

OPM is responsible for administering USPS's Civil Service Retirement System (CSRS) benefits, which covers most employees hired before 1984. This includes using a methodology for allocating responsibility for CSRS benefits between USPS and the federal government for those employees who worked for USPS and its predecessor, the Post Office Department. Some, including the USPS Office of the Inspector General, have stated that USPS has made overpayments to the CSRS fund. The term "overpayment" can imply an error of some type—mathematical, actuarial, or accounting. We have not found evidence of errors of these types. Hence, any reallocation of CSRS benefit responsibility would be a policy change from the practice that has been in place since 1974 and not a correction of any actuarial or accounting methodological error. Congress may determine that the allocation of responsibility for CSRS benefits should be revisited.

Source: GAO. | GAO-21-479SP

Related GAO Reports

- Postal Retiree Health Benefits: Unstable Finances Need to Be Addressed ([GAO-18-602](#))
- U.S. Postal Service: Status, Financial Outlook, and Alternative Approaches to Fund Retiree Health Benefits ([GAO-13-112](#))
- U.S. Postal Service: Allocation of Responsibility for Pension Benefits between the Postal Service and the Federal Government ([GAO-12-146](#))

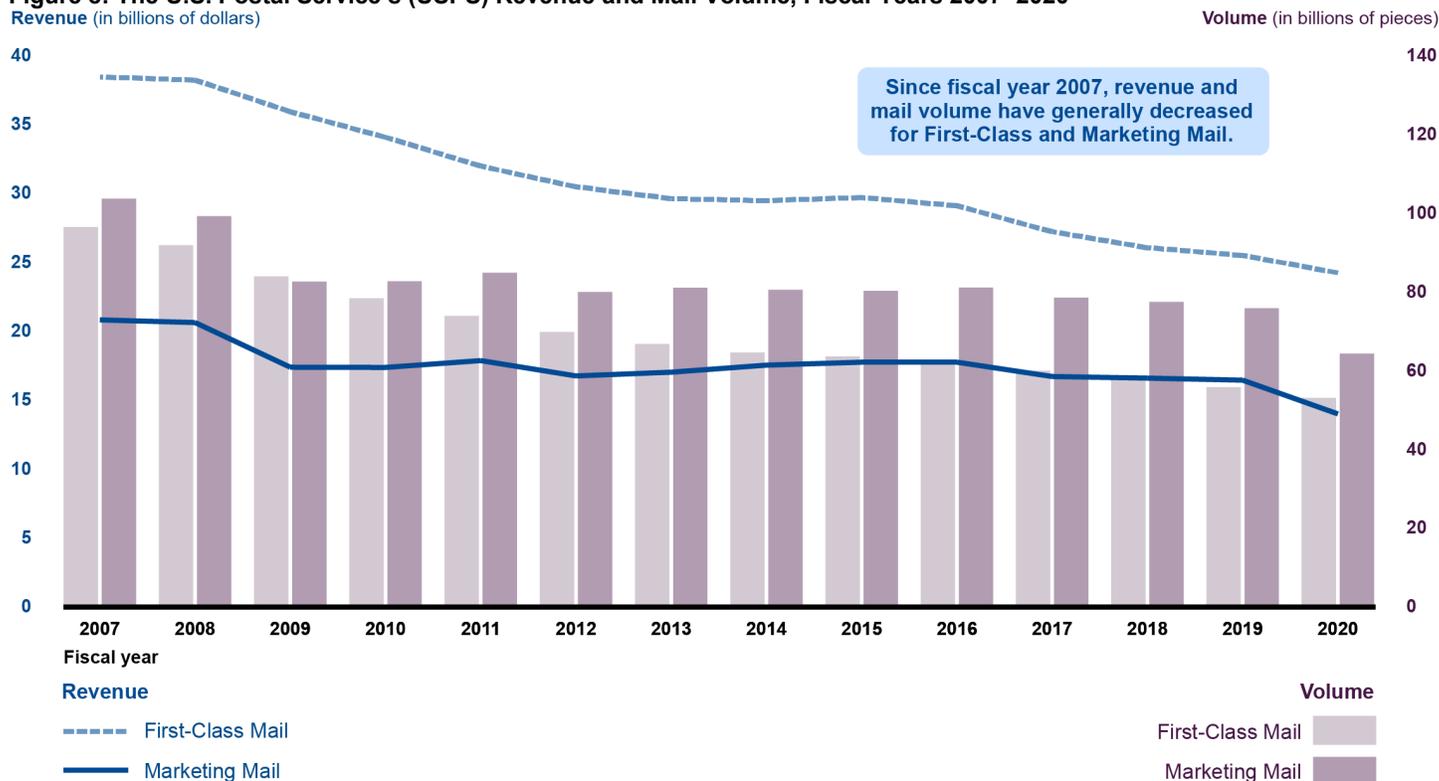
⁴⁸Postal retiree health benefits are provided as part of the Federal Employees Health Benefits Program (FEHBP). FEHBP covers federal employees and retirees, including postal and nonpostal retirees, who receive health insurance from companies that contract with Office of Personnel Management. Retiree participation is voluntary.



Key question

What limits USPS's ability to respond to declining mail volumes and associated revenues?

Figure 8: The U.S. Postal Service's (USPS) Revenue and Mail Volume, Fiscal Years 2007–2020



Source: U.S. Postal Service. | GAO-21-479SP

Answer

Statutory requirements and the conflicting interests of stakeholders have limited USPS's ability to address the decline in its mail volume and associated revenues. (See app. I for selected legal requirements applicable to USPS.)

Why does it matter?

Without action, the conflicting pressures of USPS's mission to provide universal postal service and the expectation that USPS be financially self-sustaining have created a business model that is not viable. Moreover, as USPS's financial status worsens with time, available actions to address the faltering business model may become more limited.

What needs to be done?

In 2020, we recommended that given societal changes in the use of mail, Congress consider three interrelated matters:

1. what level of universal postal service the nation requires,
2. whether USPS should be required to be a self-sustaining business operation, and
3. whether USPS's operations and solvency would be better managed under an alternative institutional structure.

Addressing these three matters is essential to developing a new business model for USPS.

What you need to know

Over at least the last 10 years, people and businesses have increasingly relied on electronic forms of communication and commerce, leading to a substantial decline in the use of mail. For example, between 2008 and 2020, USPS's volume of mail fell by 39 percent, and the associated revenues fell by 33 percent. This trend is expected to continue. At the same time, USPS's costs keep rising as new households and businesses require USPS to expand its delivery network and the compensation and benefits costs for USPS's current employees increase. Thus, USPS's financial condition has been in decline for more than a decade with little likelihood of recovery, given the current rules and organizational structure under which it operates. (For more information on USPS's costs, see ["What are USPS's key costs?"](#).)

In its March 2021 strategic plan, USPS projected that it would lose an additional \$160 billion over the next 10 years under the status quo and described its plans to achieve financial sustainability, including through cost-reduction efforts.⁴⁹ For example, USPS plans to slow down mail delivery service by 1 to 2 days for a portion of certain mail products to reduce some transportation costs and to evaluate its retail network to consolidate low-traffic facilities in metropolitan areas where alternative facilities are available. We have ongoing work assessing USPS's new strategic plan.

Private businesses respond to a faltering business model and financial difficulties in a variety of ways. These actions include changing product offerings and prices, and reducing costs. However, statutory requirements limit USPS's ability to make changes to certain service offerings, pricing, and employee compensation and benefits. While USPS has taken some actions, it has not been able to successfully respond to the changing postal marketplace or to address its uncertain financial viability due to its current business model. Some foreign governments have taken broad action toward enabling their postal entities to adjust to the changing use of mail by modifying their products, services, pricing and institutional structures. However, Congress has not yet taken such action regarding USPS. (For more information, see ["What have other countries done to address postal challenges?"](#).)

What has been done?

USPS has attempted to address its business and financial difficulties in several ways. For example, to reduce costs, USPS closed some post offices and cut the hours of service at many others. It also consolidated its mail processing centers. USPS modified certain aspects of its employee compensation structure by hiring more non-career employees, who do not receive the full range of benefits (e.g., health and retirement) received by career employees, and by lowering the pay of newly hired career employees.

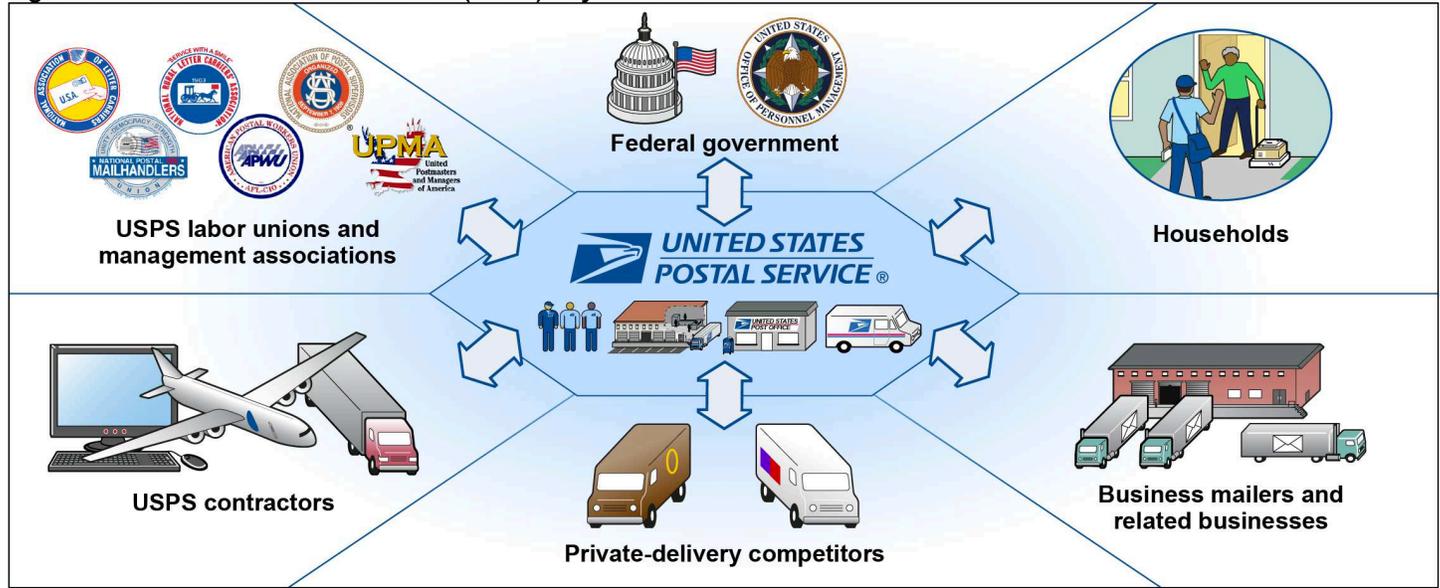
However, some actions that USPS could take to address its financial position have faced opposition from some members of Congress and certain postal stakeholders, including postal employees, mailers, and residents in rural areas. As a result, options that USPS considered in the past to better its long-term financial viability have not gone forward. These options included reducing delivery from 6 days per week to 5 days and closing more post offices and replacing their services with contract postal counters in retail stores.

⁴⁹USPS, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Washington, D.C.: Mar. 23, 2021).

Key question

How do stakeholders' interests and views affect USPS's ability to make changes to its operations?

Figure 9: United States Postal Service's (USPS) Key Stakeholders



Source: GAO. | GAO-21-479SP

Answer

The divergent interests and views of USPS's various stakeholders have limited USPS's ability to make certain changes to its operations, such as closing a large number of retail facilities or reducing the frequency of mail delivery. Further, postal reform legislation has not been enacted, in part, because of the difficulty in reaching a compromise among stakeholders, including its labor unions, businesses, and individual households.

Why does it matter?

USPS's current business model is not financially sustainable due to declining mail volumes, increased compensation and benefits costs, and increased unfunded liabilities and debt. Additionally, USPS's costs continue to rise faster than its revenues. Continued inaction will result in deepening financial problems—putting USPS's mission to provide universal postal service at greater risk and minimizing the ability to make the most appropriate or sustainable policy decisions.

What needs to be done?

Congressional leadership is critical in transforming USPS because consensus on policy decisions involving value judgments, trade-offs, and effects on postal stakeholders will be difficult to achieve. In addressing these issues, while all stakeholders' interests should be understood and taken into consideration, the nation's need for postal services must take precedence. In 2020, we recommended that Congress consider three interrelated matters:

1. what level of universal postal service the nation requires,

2. whether USPS should be required to be a self-sustaining business operation, and
3. whether USPS's operations and solvency would be better managed under an alternative institutional structure.

What you need to know

USPS has a number of key stakeholders, each with different interests in USPS and its operations. USPS is a key part of the mailing industry, and over time, it has become both a competitor and partner to private companies that also operate in the broader mail and delivery industries. For example, UPS pays USPS to deliver packages across USPS's last mile—from a local post office to the delivery point at a household or business. At the same time, these businesses also compete with USPS for end-to-end package delivery business, as they can also provide delivery to the final destination themselves.

Changes in the level of postal services face opposition from some stakeholders, such as labor unions, affected communities, and the general public. For example, stakeholders have expressed differing views on whether the frequency of delivery should be reduced to help USPS address its financial problems.

Further, key postal stakeholders hold opposing views on many other options that have been proposed. For example, to raise revenues, USPS and some postal labor unions favor eliminating or raising the price cap on market-dominant products, which would enable USPS to raise rates by more than the rate of inflation.⁵⁰ In November 2020, the PRC modified the price cap to include additional rate adjustment authority for market-dominant products to address issues such as retirement obligations. Mailers, however, have expressed opposition to increasing postage rates higher than the rate of inflation. Mailers have also expressed opposition to the reduction in service standards USPS has proposed in its March 2021 10-year strategic plan.⁵¹

What has been done?

USPS has taken steps to adjust its operations in response to declining mail volumes, but stakeholder opposition has hampered USPS's efforts. For example, in both 2009 and 2011, USPS announced plans to close several thousand USPS retail facilities. However, due to stakeholder opposition—including from members of Congress, postal unions, and local communities—USPS instead closed only a few hundred retail facilities. Another effort affected by stakeholders' views was USPS's 2011 Network Rationalization Initiative, a multi-part plan to consolidate its mail processing network. USPS consolidated more than 160 mail processing facilities but did not fully implement this initiative following opposition from various stakeholders.

⁵⁰PAEA required that the PRC establish a modern system of regulating rates and classes for market-dominant products and required that PRC review this system 10 years later. Pub. L. No. 109-435, § 201, 120 Stat. 3198, 3201–04 (2006), codified at 39 U.S.C. § 3622.

⁵¹USPS, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Washington, D.C.: Mar. 23, 2021).

Key question

What has USPS done to cut costs?

Figure 10: Examples of U.S. Postal Service's (USPS) Cost-Cutting Efforts



Source: GAO. | GAO-21-479SP

^aNon-career employees are less costly because they generally have lower pay rates and do not receive the full range of benefits received by career employees.

Answer

USPS has implemented a range of cost-cutting measures, including those shown in figure 10. However, USPS has stated that its strategies to increase efficiency and reduce costs by adjusting its network, infrastructure, and workforce are currently constrained by statutory, regulatory, contractual, and political restrictions.

Why does it matter?

USPS's key costs, such as compensation and benefits, are rising. USPS cannot, through its revenues, fund its current level of services and financial obligations. (For more information on USPS's financial condition, see "What are USPS's key costs?" and "How is USPS still operating after losing so much money?".)

What needs to be done?

Since 2010, we have stated that while USPS needs to cut its costs, congressional action is essential to restore USPS to financial viability. (For more information on actions Congress could consider, see "What could Congress do to help improve USPS's business model?".) Without congressional action, USPS will experience ever-larger annual losses and unfunded liabilities—making future reform more difficult and costly.

USPS's overall financial condition is deteriorating and unsustainable. The savings from USPS's cost-reduction efforts have dwindled in recent years and USPS has stated that opportunities for further cost savings are limited under the existing legal framework and insufficient to eliminate its financial gap. (See app. I for more information on selected legal requirements applicable to USPS). For example, a number of restrictions limit USPS's ability to control employee compensation and benefits costs.

In March 2021, USPS published its 10-year strategic plan, which includes operational initiatives intended to achieve substantial cost savings under the existing legal framework, according to USPS officials. In its plan,

USPS proposed ways to cut costs, such as by consolidating mail processing operations and by modifying existing service standards and post office hours. USPS also stated in the plan that it will continue to seek legislative and administrative changes to reduce costs over the next 10 years. It is not yet clear how much USPS will save by implementing the strategies in the plan. We have ongoing work assessing USPS's new strategic plan.

What you need to know

Statutory requirements and the conflicting interests of stakeholders have limited USPS's ability to address the decline in its mail volume and associated revenues. USPS's most profitable product—First-Class Mail—is expected to continue declining for the foreseeable future, and USPS faces increasing competition in its less profitable package shipping business. USPS's financial viability has been on our High-Risk List since 2009 due to the need for action to address USPS's poor financial condition. USPS's financial viability continues to be at high risk, and USPS cannot fund its current level of services and financial obligations from its revenues. Meanwhile, USPS's key costs, such as compensation and benefits, are rising.

What has been done?

USPS has made efforts in recent years to cut costs and adjust its operations to better adapt to declining mail volumes and associated revenue declines. For example:

- USPS has made changes to help control employee compensation and benefits costs, including lowering the starting pay for new career employees and increasing hiring of non-career employees. Non-career employees are less costly because they generally have lower pay rates and do not receive the full range of benefits received by career employees. We recently conducted an analysis that estimated USPS savings of about \$6.6 billion from fiscal years 2016 through 2018 from increased use of non-career employees.

With respect to the cost of employee benefits, we recently reported that USPS has achieved savings in this area by gradually shifting a greater share of health insurance premiums to employees. USPS negotiated these changes with the postal labor unions, and the changes were included in successive collective bargaining agreements, each of which covered a multi-year period. We found that the reduction in USPS health insurance contributions generated estimated savings of about \$1.4 billion for fiscal years 2016 through 2018.

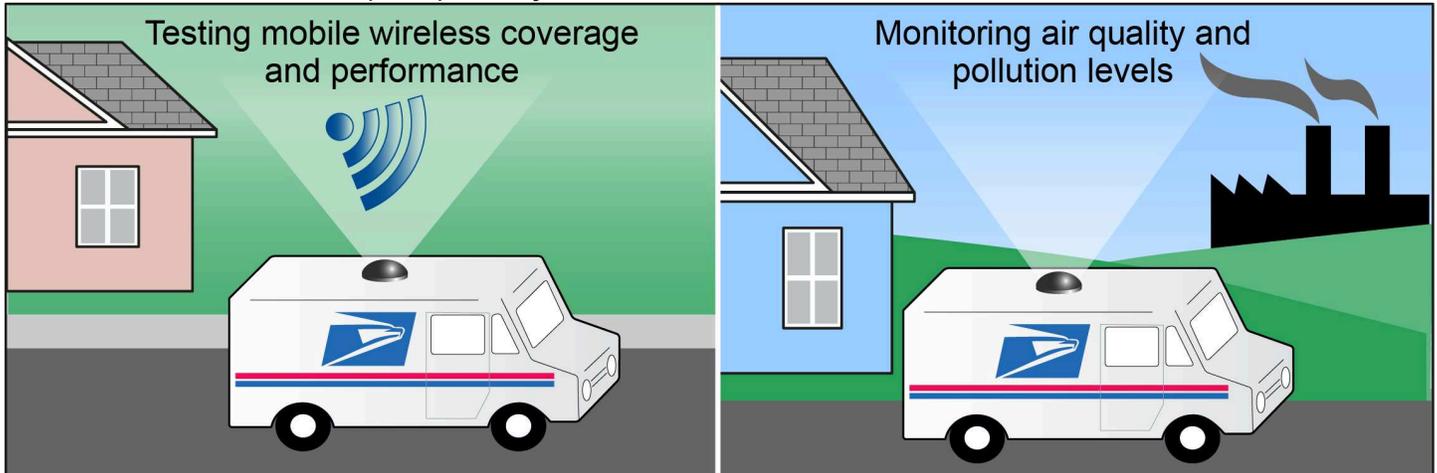
- In 2012, USPS began reducing the hours of approximately 13,000 post offices to better match retail service with lower demand, and to reduce labor costs.
- USPS also reduced its physical footprint by consolidating 160 mail processing facilities, and instituted other operational changes.

X

Key question

Would offering additional nonpostal products and services improve USPS's financial viability?

Figure 11: Two Potential Nonpostal Services That Stakeholders Identified That Could Be Provided through Mobile Sensors Attached to U.S. Postal Service (USPS) Delivery Vehicles



Source: GAO. | GAO-21-479SP

Note: Absent congressional action, USPS has limited ability to offer additional nonpostal services. The Postal Accountability and Enhancement Act of 2006 currently prohibits USPS from providing new types of nonpostal services, with limited exceptions. See Pub. L. No. 109-435, § 102(a), 120 Stat. 3198, 3200 (2006).

Answer

USPS may be well positioned to offer additional nonpostal products and services due to its trusted brand, vast delivery and retail networks, and experiences with other nonpostal efforts. However, most additional nonpostal products and services would likely have a low net revenue potential and are not likely to significantly improve USPS's financial viability. In addition, USPS is generally prohibited by statute from offering new types of nonpostal services other than those that were offered as of January 1, 2006, and grandfathered in by the Postal Regulatory Commission (PRC).

Why does it matter?

USPS is expected to be financially self-sufficient by covering its expenses through revenues generated from the sale of its products and services. However, USPS has not been able to cover the costs of providing its services and meeting its financial obligations for a number of years. The current financial status is largely due to the reduced demand for traditional postal services and because USPS costs have continued to increase despite lower mail volumes.

What you need to know

Adding nonpostal products and services continues to be proposed by some as a way for USPS to extract value from its extensive last mile and retail networks. Stakeholders identified some potential nonpostal products and services, such as notary services at post offices and delivery vehicles testing mobile wireless coverage and monitoring air quality (see fig. 11), that may provide social value and generate net revenue. However, it is also possible that offering new nonpostal products and services would increase costs for USPS because they would require additional training for employees or significant upfront investments in technology. In addition, stakeholders said USPS may not have the expertise nor the required capital to enter the market of some of these new offerings, such as offering banking and financial services. Given such concerns, USPS and policy makers need to carefully weigh the costs, benefits, and limitations of any new offerings. The decision to pursue them—including addressing current legal prohibitions—is dependent on the goal for providing such services and desired effect for USPS. (See [app. III](#) for benefits and limitations of additional products and services.)

Background

The Postal Accountability and Enhancement Act of 2006 (PAEA) currently prohibits USPS from providing new types of nonpostal services—efforts that are not directly related to mail delivery—with limited exceptions. (See [app. I](#) for selected legal requirements applicable to USPS.) Some have suggested that new nonpostal services would be will supported by the ubiquity of USPS’s delivery and retail networks.

- **Last mile delivery network.** USPS manages a vast last mile delivery network of mail carriers and delivery vehicles that move mail from a delivery unit (such as a post office) to its destination.
- **Retail facilities network.** USPS has developed a network of over 31,000 facilities that provides access to retail services and supports postal collection, processing, transportation, and last mile delivery of mail.

Leveraging these networks could potentially generate more value but may face a number of limitations that would not likely significantly affect USPS’s current financial condition.

What has been done?

USPS has leveraged its last mile and retail networks to offer several nonpostal products and services, such as the collection of passport applications that have generated some revenue and other benefits. In some cases, these efforts have provided societal benefits to the public or to other federal agencies with no funds exchanged. The nonpostal products and services we identified either were permitted to continue by the PRC pursuant to PAEA or are services USPS provided through partnerships with other federal government entities, such as those established through interagency agreements. According to data from USPS’s revenue and cost analysis, nonpostal products and services generated about \$348 million in fiscal year 2020.⁵²

In addition, USPS has conducted pilots since 2008 to provide nonpostal services on behalf of other federal government entities. For example,

- In 2015, USPS and the U.S. Census Bureau conducted a pilot in which mail clerks at 12 retail facilities used Census Bureau equipment to conduct in-person identity proofing—a method of verifying a person’s identity—and other administrative processes to help hire temporary Census Bureau employees. USPS received \$125,000 for the pilot.

⁵²Revenue from nonpostal products and services was lower in fiscal year 2020 as compared with prior fiscal years. Due to the COVID-19 pandemic, the biggest driver of this decline in revenue was a decrease in the number of passport applications USPS collected, according to USPS officials.

In 2014, USPS and the federal Defense Advanced Research Projects Agency conducted a pilot in which mail carriers carried small radiological monitoring devices and cell phone transmitters with them as they delivered mail to gather and transmit data. USPS received \$39,210 in reimbursements for the pilot.



Key question

What have other countries done to address postal challenges?

Figure 12: Selected Foreign Governments and Postal Entities Made Changes to Address Similar Challenges



Source: GAO. | GAO-21-479SP

Answer

Several countries we identified have made significant changes to their postal entities (“foreign posts”) to confront challenges similar to those that are facing USPS. These countries made changes to services and products, financial self-sustainment, and institutional structures. Some governments assumed pension costs and provided subsidies to postal retail operations. While all of the selected foreign posts were given more freedom to act in a business-like manner and some were privatized, they were also required by their governments to maintain a pre-determined level of universal postal service.

Why does it matter?

We have reported over the past 10 years that USPS’s ability to take action under its current authority is insufficient to fully address its financial situation. USPS’s mission and financial solvency are increasingly in peril. Faced with similar challenges, selected foreign governments made significant changes to their postal entities. Some of these changes could be considered for implementation in the United States.

What you need to know

Worldwide, postal entities have also faced the long-term trend of declining mail volumes driven by diversion to electronic forms of communication. To address this trend and the challenge of large fixed and compensation costs, the selected foreign governments and their posts that we reviewed made changes to the posts’ products and services, the posts’ financial self-sustainment, and to the institutional structure of the posts. Foreign

governments first determined the level of postal services they deemed necessary. This approach preserved some services (such as letter mail) but also allowed the posts to reduce delivery frequency and close or outsource some retail services and to expand into other services (such as enhanced package delivery and banking).

Regarding financial self-sustainment, selected foreign posts were allowed to increase postal product prices. They were able to take actions to reduce costs, particularly in the area of employee compensation and benefits, as well as infrastructure. Some governments provided additional assistance in various forms, such as assuming pension costs and granting tax exemptions. Each of the foreign countries we identified changed their posts' institutional structures to align with the transformation goals that the country established.

Background

In 2020, we reviewed the changes that were made in five foreign countries (Australia, France, Germany, New Zealand, and the United Kingdom) to adapt their posts to the changing use of mail. Some of their actions were made through legislation, and other actions were allowed within existing laws.

All of the selected foreign posts had changed from government departments into government-owned corporations or privatized companies over at least the past 50 years. Each foreign government established goals for its posts, such as improving service and efficiency, reducing costs and liabilities, or modernizing equipment or operations for their postal services. Each country achieved these goals in different ways but all maintained certain elements of universal postal service, such as nationwide delivery of mail, as well as some level of regulation and public oversight. Regardless of the changes to their business, foreign posts continue to adapt as they address ongoing challenges in a changing and highly competitive business environment.

What has been done?

Selected foreign governments took actions to address competitive pressures, economic downturns and market changes—challenges similar to what USPS has faced or is facing. The declines in mail volume over at least the last decade, with resulting reductions in revenue and workloads, prompted the selected foreign posts to reduce costs. As postal operations are labor-intensive, actions to reduce workforce costs (such as reducing the size of the workforce and restructuring pension benefits) were particularly important to reducing costs. Some countries also provided government assistance to achieve their transformations including assuming pension costs, granting tax exemptions, and providing subsidies for maintaining unprofitable post offices or postal services. While USPS has undertaken some efforts to cut costs and adjust its operations, it is not able to make many of the changes made by these foreign posts without legislative action. (For more information, see [“What has USPS done to cut costs?”](#).)



Key question

What could Congress do to help improve USPS's business model?

Figure 13: U.S. Capitol Building



Source: Skip/ stock.adobe.com. | GAO-21-479SP

Answer

Matters for Congressional Consideration

USPS has been unable to make broad changes to address its financial and other challenges without Congress making difficult, fundamental policy decisions. We recommended that Congress consider the following matters related to the three critical foundational elements of USPS's business model—level of universal postal service, financial sustainability, and institutional structure. All three key areas are interrelated and significant changes in one area may affect another.

- Congress should consider reassessing and determining the level of universal postal service the nation requires.
- Congress should consider determining the extent to which USPS should be financially self-sustaining and what changes to law would be appropriate to enable USPS to meet this goal.
- Congress should consider determining the most appropriate institutional structure for USPS.

Why does it matter?

USPS plays a critical role in the nation's communications and commerce, and USPS's stakeholders include businesses, governments, and individual households. Congress designed USPS to be self-sustaining; however, USPS's current business model does not allow it to be financially self-sustaining and has led to multibillion-dollar annual losses as well as growing unfunded liabilities and debt. If action is not taken, this financial situation will worsen and the critical services USPS provides the nation will be at risk.

What needs to be done?

Congress needs to consider fundamental reform of the entire framework of postal services in the United States and reassess the foundational elements of USPS's business model. Congress will need to determine the services that USPS should provide, how the services will be paid for, and what institutional structure best supports any changes. Congress's choices are likely to require changes to USPS's statutory framework, changes that will have differing effects on postal stakeholders. (For more information on legal requirements applicable to USPS, see

“What limits USPS’s ability to respond to declining mail volume and associated revenues?”.) Congressional leadership is critical to transforming USPS as consensus on these issues among USPS’s stakeholders will be difficult to achieve. Continued inaction will result in deepening financial problems—putting USPS’s mission to provide universal postal service at greater risk.

What you need to know

While USPS was intended to be self-supporting, statutory constraints and societal changes, among other things, have led to its current unsustainable financial situation. USPS is required to provide prompt, reliable, and efficient services to patrons in all areas, render postal services to all communities, and serve as nearly as practicable the entire population of the United States. USPS was designed to be a self-sustaining, business-like entity that would cover its operating costs from its own revenue; but it has also been subject to some price regulation, oversight, and mandates. USPS is now unable to both meet its mission and be financially self-sufficient, putting its key services at risk, including the delivery of election-related mail. USPS’s efforts to make changes to address its financial challenges have been limited by stakeholder opposition and statutory requirements. These requirements include federal laws that govern several aspects of USPS’s pricing, products, costs and institutional structure, making congressional action essential in transforming USPS’s business model. (See [app. I](#) for selected legal requirements applicable to USPS.)

What has been done?

No fundamental legislative changes to USPS have been made since Congress passed the Postal Accountability and Enhancement Act (PAEA) in 2006.⁵³ PAEA provided USPS additional pricing flexibility for mail products, required USPS to begin prefunding its retiree health benefits, and instituted provisions for increased transparency, oversight, and accountability, among other things. In 2009, we placed USPS’s financial viability on the High Risk List, where it remains. Since 2009, we have repeatedly called for Congress to consider options and take action to improve USPS’s financial viability. In May 2020, we called on Congress to consider fundamentally reexamining key aspects of postal service in the United States, including what services should be provided, how they will be paid for, and what institutional structure for USPS best delivers those services. However, to date no such effort has been finalized.⁵⁴

Related GAO Reports

- High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas ([GAO-21-119SP](#))
- U.S. Postal Service: Congressional Action Is Essential to Enable a Sustainable Business Model ([GAO-20-385](#))
- U.S. Postal Service: Additional Guidance Needed to Assess Effect of Changes to Employee Compensation ([GAO-20-140](#))

⁵³Pub. L. No. 109-435, 120 Stat. 3198 (2006).

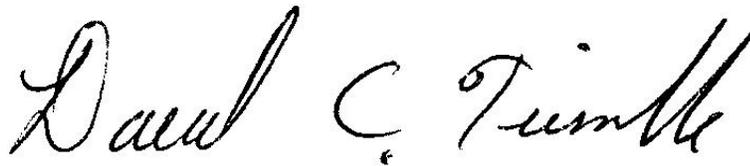
⁵⁴In May 2021, bipartisan legislation—the Postal Service Reform Act of 2021—was introduced in the 117th Congress in both the House and the Senate with similar contents. Each version of the legislation includes a number of potential changes to the authority and operations of USPS and the Postal Regulatory Commission. The proposed legislation addresses the financial condition of USPS and postal worker retirees’ health care, for example. S. 1720, 117th Cong. (2021); H.R. 3076, 117th Cong. (2021). See also Congressional Research Service, *Postal Reform Legislation in the 117th Congress: Operational Transparency and Performance Provisions*, Insight (Washington, D.C.: June 2, 2021).

Agency Comments

We provided a draft of this report to USPS for review and comment. USPS provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees, the Postmaster General, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact David Trimble at (202) 512-2834 or TrimbleD@gao.gov or Frank Todisco at (202) 512-2700 or TodiscoF@gao.gov. Mr. Todisco meets the qualification standards of the American Academy of Actuaries to render the actuarial findings regarding employee benefit costs, liabilities, and funding contained in this report. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.



David Trimble, Managing Director
Physical Infrastructure Issues



Frank Todisco, Chief Actuary
Applied Research and Methods

Appendix I: Selected Legal Requirements Applicable to the U.S. Postal Service

Table 2: Selected Legal Requirements Applicable to the U.S. Postal Service (USPS)

Citation(s)	Legal requirements
Geographic scope of service 39 U.S.C. §§ 101(a), 403(a)	USPS is required to provide prompt, reliable, and efficient services to patrons in all areas, render postal services to all communities, and serve as nearly as practicable the entire population of the United States. USPS is specifically required to receive, transmit, and deliver written and printed matter, parcels, and like matter throughout the United States, its territories and possessions, and pursuant to certain agreements, throughout the world.
Degree of service and post office closings 39 U.S.C. §§ 101(b), 404(d); 39 C.F.R. § 241.3	USPS is required to provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office can be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities. Statutory and regulatory requirements specify the process and criteria for post office closings, including appellate review by the Postal Regulatory Commission (PRC).
Mail delivery quality and frequency 39 U.S.C. § 101(e),(f); see, e.g., Pub. L. No. 116-260, div. E, tit. V, 134 Stat. 1182, 1423 (2020)	In determining all policies for postal services, USPS is required to give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail. In selecting modes of transportation, USPS is required to give the highest consideration to the prompt and economical delivery of all mail. For many years, provisions in annual appropriations acts have stated “[t]hat 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level.”
Service standards 39 U.S.C. § 3691, 39 C.F.R. part 121	USPS is required to establish modern service standards for each market-dominant product (e.g., delivery of First-Class Mail within the continental United States in 2-3 delivery days); these service standards are defined in the Code of Federal Regulations and were amended in 2021.
Letter mail monopoly 18 U.S.C. §§ 1693-99; 39 U.S.C. §§ 601-06	USPS’s letter delivery monopoly is codified in criminal and civil laws known as the Private Express Statutes. These laws generally prohibit anyone other than USPS from carrying letters for compensation on regular trips or at stated periods over postal routes or between places where mail regularly is carried.
Mailbox monopoly 18 U.S.C. § 1725	The mailbox monopoly effectively grants USPS exclusive access to mailboxes by prohibiting anyone from knowingly and willfully placing mailable matter without postage in any mailbox.
Collective bargaining 39 U.S.C. §§ 1004, 1206-07	USPS negotiates collective bargaining agreements with its labor unions. If the parties are unable to reach an agreement, binding arbitration by a third-party panel will ultimately be used to establish agreement. USPS is also required to consult with postal supervisory and managerial organizations concerning changes in pay, benefits, and other programs that affect their membership.
Benefit programs 39 U.S.C. § 1005; 5 U.S.C. §§ 8348(h), 8423, 8909a	USPS is required to participate in pension and health benefit programs, with specific provisions regarding the required level of USPS’s funding of these programs. For example, USPS is required to prefund both postal pension benefits and postal retiree health benefits, each with payments that fully cover USPS’s share of future benefit costs.

**Appendix I: Selected Legal Requirements
Applicable to the U.S. Postal Service**

Citation(s)	Legal requirements
Level of benefits 39 U.S.C. § 1005(f)	The law requires USPS's fringe benefits to be, on the whole, at least as favorable as those in effect when the Postal Reorganization Act of 1970 was enacted.
Comparability 39 U.S.C. §§ 101(c), 1003(a)	Compensation for USPS officers and employees is required to be comparable to the rates and types of compensation paid in the private sector of the U.S. economy. USPS policy also is required to maintain compensation and benefits for all officers and employees on a standard of comparability to comparable levels of work in the private sector.
Workers' compensation 39 U.S.C. § 1005(c)	USPS is required to participate in the Federal Employees' Compensation Act (FECA) program, which provides, among other benefits, compensation to federal employees or their dependents in the event of an employee's disability or death resulting from work-related injuries or diseases.
Access to facilities 39 U.S.C. § 403(b)	USPS is required to establish and maintain postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.
Appropriations restrictions See, e.g., Pub. L. No. 116-260, div. E, tit. V, 134 Stat. 1182, 1423 (2020)	Generally, provisions in annual appropriations acts have prohibited USPS from using funding to consolidate or close small rural or other small post offices.
Processing/logistics facilities Pub. L. No. 109-435, § 302(c)(5), 120 Stat. 3198, 3221 (2006), codified at 39 U.S.C. § 3691 note	USPS is required to provide public information and opportunities for public input and comment before closing or consolidating any mail processing or logistics facilities, and take comments into account when making a final decision.
Price cap 39 U.S.C. § 3622(d); 39 C.F.R. part 3030	The Postal Regulatory Commission is required by statute to establish a price cap for market-dominant products and review it later for necessary modifications or alternatives. The current inflation-based price cap is established in 39 C.F.R. part 3030 and generally limits rate increases for market-dominant products, including First-Class Mail, USPS Marketing Mail, Periodicals and Package Services such as Bound Printed Matter, Media Mail, and Library Mail. A November 2020 amendment to the price cap now includes some additional rate adjustment authority to address issues such as retirement obligations and decreases in mail density.
PRC review 39 U.S.C. §§ 501, 3622	The PRC, an independent establishment of the executive branch, must review USPS proposals to change postal rates and fees.
Advisory opinions 39 U.S.C. § 3661	Whenever USPS proposes a change in the nature of postal services that will have an effect on a substantially nationwide basis, it must request an advisory opinion from the PRC on the proposal.
Debt limits 39 U.S.C. § 2005	USPS has the authority to borrow up to \$15 billion from the U.S. Treasury. The annual net increase of obligations for capital improvements and defraying operating expenses is limited to \$3 billion. ^a
Restriction on nonpostal lines of business 39 U.S.C. §§ 404(e), 102(5)	USPS is limited in providing nonpostal services to those offered as of January 1, 2006 that PRC has authorized USPS to continue. Nonpostal service is defined to mean any service that is not a postal service. A postal service is defined as the delivery of letters, printed matter, or mailable packages, including acceptance, collection, sorting, transportation, or other ancillary functions.
Investment of postal retiree funds 5 U.S.C. §§ 8348(c), 8909a(c)	Funds set aside for postal pensions and retiree health benefits are required to be invested in U.S. Treasury securities.

Source: GAO analysis of selected statutes and regulations. | GAO-21-479SP

Note: Additionally, USPS is not subject to many federal laws that other federal agencies may be subject to dealing with public or federal contracts, property, works, officers, employees, budgets, or funds. See 39 U.S.C. § 410(a). However, USPS is required to comply with specific laws that relate to

**Appendix I: Selected Legal Requirements
Applicable to the U.S. Postal Service**

federal purchases of products and services, such as the Davis-Bacon Act. Under the Davis-Bacon Act, USPS's contracts for the construction, alteration, or repair of public buildings and public works in a given locality worth more than \$2,000 must require the contractors involved to pay their on-site laborers and mechanics at least the locally prevailing wage, as determined by the U.S. Department of Labor. See 40 U.S.C. §§ 3141-3147; 39 U.S.C. § 410(b)(4)(A).

³In response to the COVID-19 emergency, the CARES Act provided USPS with authority to borrow an additional \$10 billion from the U.S. Treasury to cover operating expenses. As required by the statute, USPS must determine that, due to the COVID-19 emergency, USPS will not be able to fund operating expenses without borrowing money. Pub. L. No. 116-136, div. A, tit. VI, § 6001, 134 Stat. 281, 504-05 (2020). The Consolidated Appropriations Act, 2021 amended the CARES Act by providing that USPS shall not be required to repay such amounts borrowed. Pub. L. No. 116-260, div. N, tit. VIII, § 801, 134 Stat. 1182, 2119 (2020).

Appendix II: Selected Policy Approaches to Address Postal Retiree Health Benefits

Table 3: Selected Policy Approaches to Address Postal Retiree Health Benefits That GAO Identified Primarily from Legislative Proposals and Pertinent Literature on Actions Taken by Companies and State Governments

	Approach	Description	Potential effects
Approaches that would shift costs to the federal government	Medicare integration	Various legislative proposals have been made to generally require postal retirees to participate in Medicare, which would increase their level of participation. While postal retirees are not currently required to enroll in Medicare Part A or B when they become eligible at age 65, they are allowed to enroll, and according to USPS approximately 92 percent of retirees voluntarily enroll in Part A and approximately 76 percent of retirees voluntarily enroll in Part B (these retirees pay Medicare's Part B premium). For those who enroll, participation in Medicare shifts primary responsibility for covering certain health care services to Medicare. Retirees generally must pay a premium to enroll in Medicare Part B.	Requiring retirees to use Medicare would decrease the U.S. Postal Service's (USPS) costs but increase Medicare's costs, according to analyses of past legislation by the Congressional Budget Office. The primary policy decision for Congress to make is whether to increase postal retirees' use of Medicare. USPS would still be responsible for its portion of retiree health benefits remaining after Medicare integration.
	Use federal appropriations	If the Postal Retiree Health Benefits (RHB) Fund becomes depleted and USPS does not fill the financial gap, additional federal appropriations could enable benefits to continue at the same level.	Using federal appropriations could help benefits continue at the same level if Congress so desires. However, such an action could increase the federal budget deficit. In addition, appropriations for postal retiree health benefits would be inconsistent with USPS's functioning as a self-financing entity that covers its costs with revenue it generates.
Approaches that would reduce benefits or increase costs to postal retirees or postal employees	Tighten eligibility or reduce or eliminate retiree health benefits	As some companies and state governments have done, eligibility restrictions could be tightened for postal retiree health benefits or other actions could reduce the level of benefits or even eliminate benefits, such as making new hires ineligible to receive retiree health benefits.	Tightening eligibility would reduce USPS's liability for postal retiree health benefits, and thus reduce its unfunded liability. Effects on current or future retirees would depend on the specific actions taken.

**Appendix II: Selected Policy Approaches to
Address Postal Retiree Health Benefits**

Approach	Description	Potential effects
Increase premium payments by postal retirees or postal employees	As some companies and state governments have done, premium payments for postal retiree health benefits by postal retirees or postal employees could be increased.	Shifting costs to retirees or employees would reduce the expenses of the RHB Fund and reduce USPS's liability for postal retiree health benefits, and thus reduce its unfunded liability. Depending on the extent to which costs are shifted to retirees, this approach could increase any financial challenges the retirees may face.
Change the federal contribution to a fixed subsidy	As some companies and state governments have done, benefits could be shifted to a defined contribution structure with a fixed amount subsidizing the benefits. This amount could be adjusted over time.	Using a fixed subsidy could decrease RHB Fund costs and required USPS payments and increase incentives for retirees to make less costly health care decisions. However, it also could result in greater cost exposure for retirees, and that exposure could lead to difficult decisions regarding health care.
<i>Approaches that would change how the benefits are financed</i>	Eliminate prefunding	Recent proposed legislation would repeal, in full, the prefunding of retiree health benefits which was statutorily required in 2006. This proposal would not improve the financial sustainability of the RHB Fund. The fund would continue to be drawn down as benefits are paid.
Allow outside investment	Proposed legislation would have initially required 25 percent of RHB Fund assets to be invested outside U.S. Treasury securities, with the goal of seeking greater returns.	Allowing outside investment could lead to a higher rate of return on RHB Fund assets and reduce long-term funding needs, but could also introduce new risks, such as those that have been experienced in certain public and private sector pension plans. Return assumptions might be overly optimistic, and assets invested in non-Treasury securities could even experience losses in an economic downturn that could adversely affect USPS revenue at the same time. In addition, USPS has a relatively "mature" demographic profile—such as a high ratio of retirees to active workers—which might also suggest a cautious approach.

Source: GAO. | GAO-21-479SP

**Appendix II: Selected Policy Approaches to
Address Postal Retiree Health Benefits**

Note: The policy approaches summarized in this table could be used, individually or in combination, to help address the financial shortfall in funding postal retiree health benefits. Even if successfully implemented, no single approach would be sufficient to make postal retiree health benefits financially sustainable.

Appendix III: Potential Benefits and Limitations Related to Adding Nonpostal Products and Services

We have previously reported that some stakeholders continued to propose adding nonpostal products and services as a way for USPS to extract value from its extensive last mile delivery and retail facilities networks (see table 4). Stakeholders have said that adding such nonpostal products and services could generate additional revenue for USPS and address community needs, but these products and services also present a number of potential limitations.

Table 4: Potential Benefits and Limitations Related to Adding Nonpostal Products and Services

Potential benefits	Description
Enhanced societal benefits	Adding nonpostal services to mail carrier activities could result in societal benefits, such as social connectedness for at-risk populations or the identification of hazardous locations or blighted properties along delivery routes.
Reduced costs for government entities	Adding nonpostal services to mail carrier activities could reduce costs for other governmental entities. In particular, cost savings and efficiencies could potentially be gained through carriers systematically reporting signs of blighted properties, major neighborhood changes, or assessing housing outcomes after major disasters.
Increased trust in federal government	Adding nonpostal services to mail carrier activities could enhance trust in USPS and the federal government. USPS officials we spoke to stated that mail carriers checking in on older or homebound residents for a fee could generate goodwill and increase trust in the federal government.
Potential revenue generation	Using USPS delivery vehicles to collect mobile wireless coverage and air pollution data, among other types of information, could potentially result in revenue generation from third parties.
Little interference with mail delivery	Mobile wireless coverage and performance and air quality data could be collected by mounting a mobile sensor and drive testing equipment either inside or outside the USPS delivery vehicle. ^a Once attached to the vehicle, mail carriers would not be expected to operate the equipment.
Independent source of data	Having a trusted government entity or an independent assessor to collect mobile wireless coverage and performance data could be a helpful supplement to mobile wireless providers' coverage data. USPS-collected mobile wireless coverage and performance data could be more extensive and likely more statistically valid (given the consistency and frequency of mail delivery) than the snapshot data that private companies currently collect.

**Appendix III: Potential Benefits and Limitations
Related to Adding Nonpostal Products and
Services**

Potential benefits	Description
Flexibility in level of involvement	USPS could lease or rent space on its delivery vehicles for third parties to attach sensors and collect data. For example, USPS currently has authority to rent space on its delivery vehicles to a third party who would be responsible for installing and maintaining the sensors, collecting the data, and ensuring data security, which would reduce some of the technical challenges for USPS, but could also reduce revenue potential. Alternatively, USPS could operate as a “full service provider,” which would require USPS to own the hardware and software in addition to managing data collection, storage, and analysis. As a full service provider, USPS could potentially collect higher fees for the data.
Enhanced access services and safeguards for consumers	Access to certain nonpostal products and services at retail facilities could enhance consumers’ convenience and aid in fraud prevention. For example, some low-income consumers only have internet access through their phone, which makes it difficult to fill out forms online; these consumers could benefit from having certain forms, such as voter registration and selective service, available at a retail facility.
Enhanced efficiency of government services	Officials from five of the six federal government entities that had partnerships with USPS said their partnerships supported their ability to fulfill their missions, such as by efficiently using resources and increasing customer convenience. For example, officials from all six of these federal government entities said USPS’s extensive network of retail facilities helped them reach customers or users.
Enhanced community connectedness	Representatives from the two consumer groups told us that community services offered at retail facilities—such as food drives, school tours, and community bulletin boards—may help sustain communities and increase social connectedness.

Potential limitations	Description
Up-front costs	Vehicle-based air quality data collection may be costly because these efforts could require several different sensors depending on the intended purpose. For example, detecting certain air pollutants could require several different sensors and cost of equipment required depends on capabilities and mobile wireless data collected.
Technical specifications	Collecting, storing, and analyzing large amounts of data could be a complex undertaking for USPS. Once collected, packaging the data in a way that would appeal to potential customers wishing to purchase such data could be costly and challenging since different customer types would have their own data needs.
Limited net revenue potential	There is significant uncertainty regarding the potential net revenues from providing nonpostal services. USPS would have to assess a number of factors including the tasks performed; time associated with those tasks; costs associated with the tasks; market demand and consumers’ willingness to pay; and fee and payment structure (e.g., a one-time fee or monthly or subscription-based fee).
Additional training	Adding nonpostal services could likely result in additional costs to USPS because of additional mail carrier workhours and training costs to perform new duties.
Adverse effect on service delivery	Providing nonpostal services may detract from the mission of USPS by taking mail carriers away from their mail delivery duties.
Lack of familiarity with residents and communities	Rotation of mail carrier and routes may reduce carriers’ familiarity with residents and communities—a key advantage of mail carriers providing nonpostal services. USPS has had to adjust delivery methods and optimize mail carrier routes to accommodate changes in mail volume, changes that could mean that a mail carrier who typically serves a neighborhood or community could change.

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^aThe specific location of the sensor device or other equipment on the vehicle will influence the quality, interpretation, and potential use of the data.

Appendix IV: GAO Contacts and Staff Acknowledgments

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