



**OFFICE OF
INSPECTOR GENERAL**
UNITED STATES POSTAL SERVICE

Primer on Postal Challenges

April 3, 2013

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Introduction

The Postal Service is in critical condition. It faces a dire cash liquidity crisis that threatens its solvency. In fact, the Postal Service has posted net losses in 14 of the last 16 quarters, incurred \$41 billion in net losses over the last six fiscal years, and has reached its maximum borrowing authority of \$15 billion. It may run out of cash as soon as October 2013. The Postal Service's financial condition is a result of the following challenges:

- Electronic diversion of mail, as individuals and businesses have become increasingly reliant on digital alternatives to hardcopy communication,
- An economic downturn that accelerated mail volume decline, as individuals and businesses sought to reduce costs and seek cheaper alternatives,
- Large retiree health benefit prefunding payments that put tremendous pressure on its financial and cash position, and
- The inability of the Postal Service to adapt to the changing world, as a result of both internal (Postal Service decisions and culture) and external (legal restrictions, political pressure) forces.

The Postal Service's long and storied history, complexity, universal service obligation, and demanding financial obligations require immediate action to restore its financial health. Additionally, immediate action is needed because the Postal Service has a significant impact on American citizens and the country's economic well-being.

- Many people rely on the Postal Service to send and receive important communications and business transactions, as well as packages, including prescription drugs and other necessities.
- Despite the rise in electronic communications, a large population does not have access to or interest in digital communications, particularly in rural and low income areas, and therefore rely more heavily on the Postal Service.
- The Postal Service is the cornerstone of a mailing industry that generates \$1.3 trillion in revenue annually and supports about 8.4 million jobs, which accounts for 6 percent of all jobs in the country.

As an independent entity of the executive branch, the Postal Service has unique characteristics:

- It receives virtually no tax dollars to fund its operations; the cost of its operations are funded by revenue that it generates through its products and services.
- It faces legal and regulatory constraints on the types of products and services it can offer and how it prices those offerings.

- It has a complex governance structure.
- It has the benefit of both letter and mailbox monopolies and the authority to borrow money from the U.S. Treasury.
- It faces a legal obligation to provide universal service, which includes providing affordable delivery services to "every door, every day," even where it does not make financial sense to do so.
- It has a mandate to "bind the nation together" without further clarity on whether that requirement is limited to physical delivery, or expands to digital.

The Postal Service Office of Inspector General has compiled the following *Primer on Postal Challenges* to give readers an overview of the Postal Service, the major issues it faces, and the options being discussed to help the Postal Service recover, both in the short- and long-terms.

First, the document identifies *Lever of Action* the Postal Service could take that could cut costs and generate additional revenue. Next, the document outlines the struggles the Postal Service faces as a result of its lack of *Mission Clarity*. Currently, the Postal Service's stated mission is to "bind the nation together." The traditional interpretation of that mission has limited the Postal Service to physical delivery of paper-based mail and packages. The Postal Service, however, must adapt its mission to meet the changing needs of its customers. To do so, it needs to understand its role in an environment increasingly reliant on digital means of communication. Unless and until the Postal Service has *Mission Clarity*, it cannot fulfill its mission to meet modern needs.

This document is not intended to advocate for adoption of one option over another, but rather to give the reader an understanding of the Postal Service's current financial and operational challenges, as well as possible future directions.

Levers of Action

Optimizing Networks

Issue

There is opportunity to reduce costs through aligning the current networks with the current lower demand for hard copy mail.

While the concept of optimization is widely supported, there is often resistance when it comes to closing specific facilities, particularly closings that would affect the local economy.

Communities tend to resist Post Office closures as it is often the only face of the government in that community.

Closures of mail processing facilities also face resistance as they are a source of employment.

Unions are resistant to changes in delivery office consolidation and delivery route optimization.

Status

- The Postal Service has reduced some of its networks, but there is still room to make them more efficient.
 - Retail: In 2011, the Postal Service announced plans to review 3,600 Post Offices for closure, but criticism caused it to reduce hours instead. It is unclear whether the limited hours will meet consumer needs.
 - Mail Processing: In May 2012, the Postal Service stated an intention to consolidate 140 locations through 2013 and 89 more starting in February 2014.
 - Delivery: The Postal Service has been redesigning delivery routes and consolidating facilities.
- Efficiently meeting demand may mean adding service in some areas while cutting in others, ultimately contributing to the health of the Postal Service.
- If the Postal Service's mission is expanded, it may also need to establish or enhance networks to provide new products and services.

Options Under Discussion

- Encourage the Postal Service to right-size mail processing facilities to match volume and throughput.
 - Some argue any job reductions and the local and national economic impact should be considered.
 - Others argue that the focus should be on the benefit the public will reap from a stable Postal Service with lower prices.
- Allow the Postal Service to leverage its excess capacity to offer new products and services, such as micro-warehousing and logistics.
- Encourage the Postal Service to optimize the retail network to match customer demand, but focus on both cost savings and improved service by closing some facilities, but expanding service hours at others. Some may oppose providing unequal service in different areas.
- Keep the retail network as is, but allow the Postal Service to offer nonpostal products, if needed, to turn Post Offices from cost centers into profit centers and let them become resources for local communities.

Aligning Service to Market Demand

Issue

The current levels of service may no longer be needed as most consumers rely less on hard copy mail.

In February 2013, the Postal Service announced plans to eliminate Saturday delivery of letter and flat mail, but plans to continue to deliver parcels six days per week, effective August 5, 2013.

There may be significant cost savings in moving from door-to-door to curbside and clusterbox delivery.

The Postal Service is also pursuing a reduction in service standards, meaning delivery time for certain types of mail would take longer than in the past.

Status

- The Postal Service estimates the cost savings of eliminating Saturday delivery of all mail except parcels will be \$2 billion once the plan is fully implemented, but it has not yet provided its cost methodology.
- The Postal Service requested an advisory opinion on a prior proposal to eliminate Saturday delivery, where the PRC raised concerns that the Postal Service is overstating its cost savings and understating expected revenue loss.
- Several members of Congress, mailers, and unions have expressed concern with the Postal Service's plan and challenged its legal authority to reduce delivery to five days per week.
- Since 1987, spending bills have required the Postal Service to deliver mail six days per week. However, recently, the Postal Service asserted that it had the legal authority to eliminate Saturday delivery.

Options Under Discussion

- Explicitly prohibit the Postal Service from eliminating Saturday delivery. This may meet some customers' delivery wishes, but does not provide the Postal Service with any financial relief.
- Allow the Postal Service to eliminate Saturday delivery. The Postal Service may not fully realize the estimated cost savings and could risk additional revenue if senders mail less as a result.
- Continue requiring six-day delivery but provide other funding mechanisms (such as subsidies or a universal service fund). While this could address reduced delivery frequency concerns, there may be a lack of support for other funding mechanisms.
- Give the Postal Service the legal authority to move existing residences to curbside or clusterbox delivery. This could lead to significant cost savings, but will most likely not have public support.

Labor Flexibility

Issue

About 80% of the Postal Service's costs are labor-related.

The Postal Reorganization Act authorizes collective bargaining on wages and working conditions.

Current law prohibits postal employees from striking and requires the Postal Service to maintain compensation and benefits comparable to the private sector.

Impasses in collective bargaining negotiations must be resolved through binding interest arbitration.

Most employees are represented by one of four unions.

All four of the major union contracts include "no lay-off" clauses that prevent the Postal Service from substantially reducing its workforce quickly.

Status

- The major unions that represent postal employees are
 - American Postal Workers Union, AFL-CIO (APWU), representing clerks, mechanics, vehicle drivers, custodians and some administrative positions.
 - National Association of Letter Carriers, AFL-CIO (NALC), representing employees that deliver in metropolitan areas.
 - National Rural Letter Carriers' Association (NRLCA), representing employees that deliver primarily in rural and suburban areas.
 - National Postal Mail Handlers Union, AFL-CIO (NPMHU), representing employees that work in mail processing plants and Post Offices.
- Career employees participate in federal pension and benefits programs, including health and life insurance.
- The Postal Service pays a greater share of health care premiums than federal agencies because of past collective bargaining agreements, but current contracts are gradually reducing the share.
- The contracts include provisions that limit labor flexibilities, such as limitations on managers' ability to assign work to employees outside of their crafts.
- If collective bargaining reaches binding arbitration, there is no statutory requirement for the arbitrator to consider the Postal Service's financial condition.

Options Under Discussion

- Require the arbitrator to consider the Postal Service's financial condition on collective bargaining agreements.
- End binding arbitration or require arbitrators to select between only two final offers to incentivize each party to present a reasonable, rather than extreme, proposal.
- Impose changes to collective bargaining agreements, such as removing no lay-off clauses, making work rules less stringent, and allowing cross-craft training.
- Recently proposed postal legislation would allow lay-offs, despite the prohibition in existing union contracts.

Prefunding Liabilities

Issue

The Postal Accountability and Enhancement Act of 2006 (PAEA) requires the Postal Service pay between \$5.4 and \$5.8 billion annually until 2016 to prefund its liabilities for the health benefits of future retirees.

Annual payments to the PSRHBF were developed based on budget scoring considerations and do not vary based on actuarial changes.

The Postal Service must also pay the health premiums of current retirees (\$2.6 billion in 2012).

These prefunding requirements have challenged the Postal Service by (1) depleting capital that could have used to make investments in infrastructure and (2) inflating the cost of postal products at a time of declining demand.

Status

- The Postal Service has been unable to fully make its retiree health prefunding payments without borrowing and has said it will not have the cash to make the payment in 2013.
- Prefunding has required all of the Postal Service's working capital and inflated product costs at a time when the value of the product is decreasing.
- The Postal Service has funded nearly all (95%) of its \$300 billion in pension liabilities.
- The Postal Service has funded 49% of its \$94 billion health liability for current retirees.
- OPM has estimated that the Postal Service has overfunded its Federal Employees Retirement System (FERS) liabilities by nearly \$3 billion but has been unable to refund the overpayments to the Postal Service.
- The Postal Service has set aside \$330 billion — or 83% of its pension and retiree health liabilities of \$394 billion.

Options Under Discussion

- Continue the prefunding requirement, but replace current fixed payments with an actuarially-based plan (adjusting amounts to reflect changing liabilities); allow payments for current retiree premiums to come from the Postal Service Retiree Health Benefits Fund (PSRHBF).
- Allow a reprieve from paying into the PSRHBF by sealing the fund and allowing it to grow (\$1.6 billion per year), while maintaining the requirement to pay current premiums.
- Eliminate the retiree health prefunding requirement, and allow the Postal Service to return to pay-as-you-go only, paying annually for current retiree premiums. Allow the Postal Service to use PSRHBF funds to make payments.
- Allow the Postal Service to set aside its \$330 billion in its pension and retiree health funds, plus its \$85 billion in real estate (\$415 billion in total) to satisfy its liabilities.
- Allow the Postal Service to annually apply funds from accounts it has overfunded, such as FERS, toward the PSRHBF liabilities with OPM calculating the overpayments using Postal Service-specific assumptions.

Postal Service Managed Health Plan

Issue

The Postal Service participates in the Federal Employees Health Benefit (FEHB) program, but pays higher premiums for employees than other federal agencies. It is working to reduce these.

In 2011 the Postal Service proposed removing its employees from the FEHB program and creating its own health system.

The Postal Service is not eligible to receive the employer subsidy for Medicare D because it participates in FEHB.

The Postal Service claims that moving to its own health care program could save up to \$7 billion annually and reduce its unfunded liability for retiree health to \$1.4 billion.

Status

- No law currently requires the Postal Service to stay in FEHB, but a 1970 provision requires collective bargaining over benefits and does not allow fringe benefits to be less than they were when the Postal Reorganization Act took effect.
- OPM is concerned that the Postal Service leaving FEHB will have a negative impact on the program.
- The Postal Service claimed it would save \$7 billion a year total under its own program from changes including:
 - Enrolling all retirees in Medicare A and B (currently some eligible employees choose not to participate),
 - Integrating coverage from Medicare D (FEHB does not receive employer subsidy from Medicare D),
 - Creating more coverage tiers (i.e. adding “self and spouse” and “self and children”),
 - Implementing a deductible or “carve out” for future retirees, and
 - Using best practices for purchasing integrated care.
- The OIG reviewed the Postal Service’s plan in 2012 and found the savings estimate was reasonable, but it needed to communicate the plan more clearly.
- GAO is also currently reviewing the Postal Service’s proposed health plan.

Options Under Discussion

- Allow the Postal Service to move employees and retirees from the FEHB to a less expensive Postal Service health plan that may already be fully funded. Under this option, consideration of the impact on federal employees remaining under the FEHB program would be needed.
- Keep the Postal Service under the FEHB program, but reduce costs by:
 - Reducing the Postal Service share of premiums so that they are equal to what other agencies pay,
 - Requiring postal retirees to sign up for Medicare, and
 - Allowing the Postal Service to receive the subsidy for Medicare D (\$250 million per year).

Revenue Challenges

Issue

The Postal Accountability and Enhancement Act of 2006 (PAEA) establishes a cap on the rate at which the Postal Service can raise prices on market dominant products each year. The price increase cap is limited to the annual inflation rate as measured by changes in the Consumer Price Index.

The law includes an exception to this cap under "extraordinary or exceptional circumstances."

The law allows for reconsideration of the cap every five years. In its 2011 report on the subject, the PRC did not offer any recommendations for change.

Postal costs, particularly labor-related costs, do not necessarily follow the same trend as the rate of inflation.

Status

- The Postal Service's mail volume and revenue have significantly declined since volume's peak in 2006.
- The price cap has prevented the Postal Service from raising prices enough to ensure that some products cover their costs. The PRC found that 10 "underwater" products contributed to \$1.6 billion in losses.
- In 2010, the Postal Service filed a request with the PRC to raise rates above inflation under the "extraordinary or exceptional circumstances" exception, often called an "exigent rate case."
- Under the exigent rate case, the Postal Service cited electronic diversion and the struggling economy as the circumstances that warranted an exigent rate increase.
- The PRC rejected the Postal Service's exigent rate request. On appeal, the D.C. Circuit concluded that exigent circumstances were met, but the Postal Service had not made the case for the price increase. The court allowed the Postal Service to refile, but it chose not to.
- The next price cap reconsideration deadline is 2016.

Options Under Discussion

- Direct the PRC to re-evaluate the price cap immediately, instead of waiting until 2016 as stated in the law.
- Modify the current inflation-based (CPI) price cap. This could generate additional revenue for the Postal Service, but could cause rate shock in the mailing community.
- Repeal the CPI price cap established by PAEA. Mailers would likely oppose such a change.
- Change the exigency language so that an exigent rate case can be filed for more lenient reasons than the current standard of "extraordinary or exceptional."
- Allow the Postal Service to have a one-time rate case where it raises and realigns prices so that all products at least cover their costs. This solution may not work in the long-term if postal costs continue to increase faster than the rate of inflation. Mailers using underwater products may fear large increases, but other mailers may embrace such a change.

Digital Services

Issue

The Internet and digital revolution have fundamentally changed the worlds of communication and commerce.

Consumers are increasingly shifting from physical to digital and now mobile services, while exercising greater control over their options.

The Postal Service's mission to bind the nation together has evolved over time; the use of digital services to fulfill this mission could be the next evolution.

Under current law, the Postal Service may be limited in offering digital services, if such services are deemed "nonpostal."

Status

- Electronic substitution of traditional mail is accelerating, as both consumers and businesses increasingly rely on new technologies, resulting in considerable mail volume and revenue decline.
- For citizens and commerce, problems remain with digital services, including a lack of universal access and inadequate levels of privacy, confidentiality, security, and dependability.
- Business leaders and academic experts have identified a need for a trusted third party to fill gaps in universal service, energize market participants, and fulfill the potential of the digital revolution. The Postal Service could use its trusted reputation and existing infrastructure to play a role.
- The Postal Service recently began a pilot with the Federal Cloud Credentialing Exchange (FCCX) program to provide a pipeline for secure information between agencies and approved ID providers for Government.

Options Under Discussion

- Allow the Postal Service to pursue digital products and services that could complement its physical offerings and conceptually fall under its mission to "bind the nation together," such as providing:
 - A one-stop digital platform for e-government services and e-commerce support,
 - A secure e-mail box,
 - A virtual PO box with an e-mail interface to direct delivery,
 - Digital identity authentication,
 - Digital currency redemption, Digital Collect On Delivery (COD) and Digital Escrow,
 - Authentication (e.g., ID validation and in-person proofing), and
 - Hybrid and reverse hybrid mail services.
- Maintain the Postal Service's focus on providing paper-based services and allow the Postal Service to adjust accordingly.

Nonpostal Products and Services

Issue

The Postal Accountability and Enhancement Act of 2006 (PAEA) limited the Postal Service to providing only postal products and services, except those grandfathered by the PRC and those provided to government agencies.

Offering nonpostal products may allow the Postal Service to earn additional revenue and help cover the cost of universal service.

Diversified products contributed 63% of the foreign posts' total revenue in 2008, up from 49% in 2003.

The Postal Service already provides a number of nonpostal services to other government agencies, such as passport application services.

Status

- The Postal Service is currently limited to offering nonpostal products that were offered in 2006 and grandfathered in by the PRC.
- The purpose of the prohibition is to prevent the Postal Service from competing with private industries.
- Existing nonpostal services such as passport applications generated a net income of \$141 million in 2011.
- Offering additional nonpostal services at Post Offices may allow them to earn revenues sufficient enough to keep them open; this would be especially beneficial in communities where there are few other businesses and the public relies more heavily on their local Post Office.
- Private industries that provide the same or similar products and services may oppose the Postal Service's offering of such nonpostal products and services, but may wish to partner with postal outlets.
- International posts offer nonpostal products and services such as government services. Some are partnering with local communities to expand the services offered at Post Offices.

Options Under Discussion

- Allow the Postal Service to offer nonpostal products that enable Post Offices to earn sufficient revenue to justify keeping them open.
- Allow the Postal Service to venture into nonpostal services that meet society's need for access to government services, such as licenses and permits.
- The Senate passed legislation (S. 1789) in 2012 that included a provision that would allow the Postal Service to offer nonpostal products and services as long as they leverage the Postal Service's existing network. The House, however, did not consider the legislation.

Modernize and Grow the Parcel Business

Issue

In addition to delivering traditional letter mail, the Postal Service delivers parcels, along with its competitors in package delivery.

The growth in eCommerce has increased the parcel delivery market.

One of the Postal Service's goals is to take advantage of the growth opportunity in the parcel delivery market and become a leader in small package delivery.

To accommodate a shift of its volume — from letter mail to package delivery — the Postal Service may need to adapt its mail processing, transportation, and delivery networks.

Status

- In FY 2012, the Postal Service generated more than \$11.5 billion in revenue from shipping and packages, an increase of nearly 9% over FY 2011.
- The Postal Service partners with its competitors, such as FedEx and UPS, to provide last mile delivery of packages through "co-opetition."
- Partnerships with its competitors typically involve the competitors providing air transportation and the Postal Service delivering the parcel to the delivery point, such as a home or business.
- The parcel delivery market is increasing with the rapid growth in eCommerce sales, which in the U.S. grew by more than 15 percent in 2012 according to the Census.
- One of the Postal Service's goals is to take advantage of this growth opportunity and become the market leader for small package deliveries.
- The Postal Service's general strategy has been to focus on specific markets that take advantage of its ubiquity, network economies, and public mission and avoid head-to-head competition with the private sector.
- Postal Service efforts to meet parcel delivery needs include a test of same day delivery and gopost, which is a service that provides automated, secured, self-service parcel lockers in central locations that allow customers to ship and receive prepaid packages anytime.

Options Under Discussion

- Adapt the Postal Service's networks to meet parcel delivery needs. For example, the Postal Service may want to consider dynamic delivery by shifting routes to reflect actual delivery needs each day, rather than using set delivery routes based on delivering letter mail to every door daily.
- Consider offering services that meet consumer-driven demand for more dynamic delivery options, where the customer gets to choose the time and place of delivery. Parcel lockers could help meet that demand.

Mission Clarity

Government Agency or Regulated Business

Issue

The Postal Service is a self-sufficient independent government entity that is expected to be “business-like.”

The Postal Service's status as a governmental entity creates both advantages and disadvantages for it.

Advantages include the mailbox and letter monopolies and the ability to borrow from the U.S. Treasury.

Disadvantages include obligations to provide universal service and laws and regulations that control pricing, limit product and service offerings, and require large payments for federal health and pension systems.

Some have argued that society would be better served by regulated private mail carrier(s).

Status

- While the Postal Service faces criticism that it does not operate enough like a business, it also faces criticism if it appears to be directly competing with private industry.
- Private carriers currently do not face the same laws, obligations, and regulations as the Postal Service; the Federal Trade Commission found that the Postal Service's financial disadvantages outweigh its advantages as an independent government entity.
- The Postal Service can no longer afford to absorb the cost of some of the benefits it provides to society (i.e., keeping all Post Offices open, maintaining facilities to provide employment).
- While some have advocated for privatization, there is some concern that in the absence of a U.S. Postal Service, a private entity would not be willing to provide affordable service to all delivery points.
- The Postal Service has successfully partnered with the private industry through co-opetition. For example, the Postal Service provides last mile delivery for 30% of FedEx ground parcels.
- A 1989 law moved the Postal Service off-budget, but postal legislation is still often thwarted by federal budget scoring considerations, as its retiree benefits accounts and workers' compensation account remain on budget. Unified budget considerations also affect changes to law.

Options Under Discussion

- Maintain status quo as an independent government entity, but allow more flexibility for revenue growth and/or cost cutting. For example, enable it to provide more government services.
- Maintain status quo, but provide funds to cover the cost of societal benefits (such as rural Post Offices) that are considered essential.
- Eliminate the monopoly, allow private mail delivery, and apply consistent regulations to all last mile carriers.
- Reinstate off-budget status so Congress can pass postal legislation without budget scoring restrictions.

Binding the Nation in the 21st Century

Issue

The law that establishes the Postal Service tasks it with the duty to "bind the nation together" but does not expressly state the mechanisms it should use to do so.

Traditionally, the obligation to "bind the nation together" has been met through the physical delivery of mail and packages.

Historically, the Postal Service has been able to adapt to or even drive technological changes such as when it moved from stage coaches to railroads to air planes; it will need to continue to adapt to meet its mission in the 21st Century.

In a 1877 case, the Supreme Court upheld the notion that the Postal Service can evolve with technological change.

Status

- Digital communications and transactions have continued to increase with evolving technologies, presenting possibilities as well as challenges for commerce and citizens.
- It is unclear whether the Postal Service can legally offer digital services, even if those services will help it meet its mission.
- The Postal Service has begun considering how its products and services can be modernized to meet 21st Century needs and services through the establishment of a Secure Digital Solutions group.
- The Postal Service has taken steps toward serving as a shared platform for e-Government services, through its recent involvement in the Federal Cloud Credential Exchange (FCCX) initiative. Under this initiative, the Postal Service:
 - Is expected to act as a pipeline for validating digital identity credentials for citizen access to online government services; and
 - Will deliver credential information similar to how it currently delivers hardcopy mail.

Options Under Discussion

- Allow the Postal Service to also meet its universal service obligation through digital alternatives.
- Create a consistency between the Postal Service's mandate to "bind the nation together" and providing it the flexibility and tools to do so.
- Reduce the Postal Service's role in "binding the nation together" to reflect the diminishing reliance on hardcopy communications and consider an alternative infrastructure to support emerging communication needs.
- Tailor service to the needs of only those that continue to rely on the Postal Service because they are left behind, such as those in rural and low income areas.

Defining the Universal Service Obligation

Issue

The lack of a legal definition of the universal service obligation allows more flexibilities but makes it difficult to determine whether the Postal Service is meeting its obligations.

Some other countries explicitly define the scope of the universal service obligation by creating specific rules for the provision of service such as mandating that most citizens be within a certain distance from a collection box.

Status

- The universal service obligation represents minimum requirements the Postal Service must provide to citizens and businesses. The Postal Service, however, could provide services beyond those outlined in the universal service obligation in response to market demand.
- The universal service obligation is not expressly defined in law, although appropriations riders and other legislative provisions attempt to create some standards.
- Currently, the Postal Service relies solely on physical delivery of paper-based mail and packages to meet its universal service obligation.
- The PRC identified seven key attributes in its 2008 report on the universal service obligation. Those attributes include (1) geographic scope, (2) range of products, (3) access, (4) delivery, (5) prices, (6) quality, and (7) protection of users' rights
- The PRC found that the universal service obligation attributes are intended to promote "the evolution of postal service to meet an ever-changing mix of demands and opportunities."
- The PRC recognized that how the Postal Service meets each of these universal service obligation attributes will evolve with changing technology over time.

Options Under Discussion

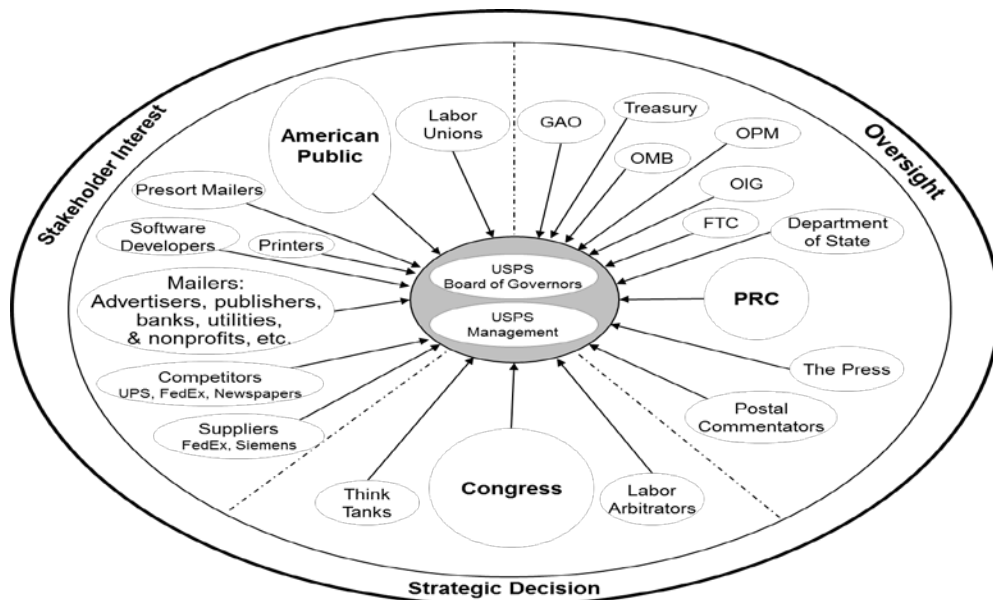
- Keep the universal service obligation relatively undefined. This will allow flexibility, but will make it more difficult to determine if the Postal Service is meeting its obligations.
- More specifically define the universal service obligation to ensure the public is receiving the defined level of service it needs in the 21st Century. Clarifications may include:
 - Specifying frequency and modes of delivery and
 - Allowing the Postal Service to use digital alternatives to meet the universal service obligation.
- Expand the definition of the universal service obligation to require the Postal Service to enable digital access for digital refugees.

Restructure the Postal Service's Governance Model

Status

- The Postal Service has an intricate governance and oversight structure, as well as an elaborate set of stakeholders with varying interests that often hinders its ability to be agile — an ability it needs to adapt to changing needs.
- Convergence of communication vehicles is making it difficult to define and regulate individual types of communication (i.e. phone, Internet, physical).
- In other countries, the postal regulator oversees other postal licensees or other industries.

Figure 1 demonstrates the complex governance web.



U.S. Postal Service Office of Inspector General

Options Under Discussion

- Seek regulatory convergence for overlapping technologies and sectors, such as postal, telecom, and digital services, to encourage innovation, multipurpose products, and bundled services.
- Ensure that any new laws and regulations allow the Postal Service to make good financial and operational decisions nationwide instead of decisions driven by local considerations or the wishes of a particular interest group. For instance avoid “not in my backyard” mentality when the Postal Service tries to close a facility.
- Centralize oversight responsibilities so the Postal Service is not required to try to meet varying, sometimes conflicting, directions.
- Recently proposed postal legislation included a provision that would establish a financial Control Board if the Postal Service defaults.

Customer-Centric Approach

Issue

The Postal Service has a diverse set of customers that includes senders, recipients, and third-party mail consolidators, whose needs and priorities vary and sometimes even conflict.

To address its financial crisis, the Postal Service has focused on cutting costs instead of meeting customers' needs, which often leads to service reductions.

Customers have become increasingly frustrated with the Postal Service and are finding electronic alternatives ever more appealing.

These changes drive customers away and create a death spiral for the Postal Service.

Status

- Customers expect that the communications infrastructure will provide interactive, multi-channel access, message integration, and data storage — while providing security, privacy, and confidentiality.
- Consumers are looking to remove barriers to commerce, especially internationally, where exchange rates, customs fees, and shipping charges limit price visibility.
- The digital revolution has changed the way that customers choose to communicate and transact business, in turn raising customers' expectations, creating alternatives, and giving customers power.
- Control is shifting from senders to receivers, giving them greater choice in what, when, and how they receive communications and merchandise.
- Retailers — also customers of the Postal Service — are adapting their businesses to allow access to their products and services through a variety of channels.
- Communication has also shifted away from a broadcast medium and become more interactive.
- The Postal Service has the potential to meet changing consumer demands, but will need to change how it currently does business.

Options Under Discussion

- Treat customers as a business would by striving to meet or exceed the heightening expectations of all customers — mailers, recipients, and third-party consolidators.
- Allow the Postal Service to offer digital postal products and services that address the evolving needs of customers and commerce.
- Expand the role of Post Offices to offer governmental services and increase public access to these services.
- Encourage the Postal Service to find and utilize shared retail space with other businesses to both cut costs and offer the public more convenience.
- Increase focus on the parcel market, allowing customers to choose when and where parcels will be delivered.

Conclusion

The Postal Service is facing a dire — and urgent — financial crisis that threatens to destroy its existence. The Postal Service finds itself in the midst of a digital, global, and consumer revolution. Customers now demand better, faster, and cheaper service. If those demands are not met, alternatives are available. Decision-makers must now determine how the Postal Service's mission to "bind the nation together" will be applied in a new era and arm the Postal Service with the ability to meet that mission, whether it remains hardcopy or expands into digital.

If decision-makers determine the Postal Service should adapt to the changing market, its survival will be dependent on:

- Minimizing some of its universal service obligations and societal obligations that it cannot afford to sustain,
- The ability to reduce its networks to meet shrinking demand,
- Relief from health and pension prefunding demands that it cannot pay,
- The flexibility to set prices that cover its costs, and
- Flexibility to meet its mission in alternative ways, such as offering digital services.

If instead decision makers determine that the Postal Service should not adapt, the focus will need to be on planning its orderly “shutdown” that allows affordable mail delivery to continue as long as possible. The Postal Service will still need the ability to cut its costs and increase prices, and may need revenue assistance (i.e., subsidies), as there will be less and less mail to cover the cost of the postal network. A Postal Service shutdown, however, will leave Americans without necessary services, as its survival is essential to Americans' ability to connect and thrive domestically and internationally:

- The Postal Service plays an important role in helping ensure the success of American commerce competing in an increasingly global market. The United States runs the risk of falling behind other nations if it does not modernize the national communications infrastructure.
- Without an entity with a universal service obligation, there may be areas of the country that will not receive affordable parcel delivery service, isolating these areas from the growing parcel market.

The Postal Service is at a critical juncture. The Postal Service and its stakeholders should not expect to be successful focusing on short-term solutions. Instead, its survival is dependent on a new, relevant, clearly defined mission, effective implementation of that mission, and the flexibility to act — even with incomplete information — but with the keen awareness that inaction will be fatal.

Appendix A: Glossary

- **Federal Cloud Credential Exchange (FCCX):** The federal initiative to support digital authentication for government services with which the Postal Service is involved.
- **Federal Employees Health Benefits (FEHB):** The program through which federal employees can acquire health care from different private vendors for a government rate.
- **Federal Employees Retirement System (FERS):** The current retirement system for all civilian federal employees. It includes an annuity, Social Security, and the Thrift Savings Plan. FERS replaced the Civil Service Retirement System (CSRS) in 1987.
- **Federal Trade Commission (FTC):** Federal agency tasked with protection of consumers from business practices that are anticompetitive, deceptive, or unfair while at the same time encouraging legitimate business activity.
- **Post Office (PO):** Retail outlets across the U.S. that are owned or operated by the Postal Service.
- **Postal Accountability and Enhancement Act of 2006 (PAEA):** Postal reform law enacted in 2006 that expanded the powers of the Postal Regulatory Commission, placed a price cap on postal products, created a requirement for the Postal Service to prefund retiree health benefits, and barred the Postal Service from offering new nonpostal products and services.
- **Postal Regulatory Commission (PRC):** Prior to 2006 it was known as the Postal Rate Commission and exercised power mainly over rates. Since the passing of the 2006 postal reform law (PAEA) this body has had additional general oversight powers.
- **Postal Reorganization Act of 1970 (PRA):** Postal reform law that eliminated the cabinet-level Post Office Department and created the U.S. Postal Service as an independent entity of the federal government, designed to be run more like a business.
- **Postal Service Office of Inspector General (OIG):** An oversight agency of the Postal Service that provides unbiased law enforcement, auditing, and research.
- **Postal Service Retiree Health Benefits Fund (PSRHBF):** A Treasury fund established under PAEA that is designed to cover the Postal Service's liability for the FEHB healthcare costs of future retirees.

- **United States Postal Service (USPS):** An independent entity of the federal government tasked with providing universal and service by delivering mail to all U.S. states, territories and military bases.
- **Universal Service Obligation (USO):** Not explicitly defined by law, but it is the expectation that the Postal Service will allow equal access to mail service through constant rates, regardless of where a letter originates or destines, and a wide presence across the country as well as deliver to every address in the United States with a certain regular frequency (historically, six days a week).

Appendix B: Postal Service by the Numbers

Fiscal Year 2012 Revenue and Expenses

- Revenue: \$65.2 billion
- Expenses: \$81.0 billion
- Net loss: \$15.9 billion, including
 - Missed payments into Retiree Health Benefits Fund: \$11.1 billion
 - Workers' compensation non-cash increase to liability: \$2.4 billion

Assets/Liabilities

- Assets: \$415 billion, including
 - Set-aside Cash (pension and retiree health funds): \$330 billion
 - Real estate: \$85 billion
- Pension and retiree health liabilities: \$394 billion
- Overpayment to FERS: \$3 billion, or \$12 billion using USPS-specific assumptions.

Mail Volume

- Total mail pieces in 2012: 159.9 billion (25% below 213.1 billion peak in 2006)
- First-Class Mail pieces in 2012: 69.9 billion (33% below 103.7 peak in 2001)
- Mail pieces processed daily in 2012: 528 million
- Increase in parcel deliveries between 2011 and 2012: 7.5%
- Percent of world's mail volume processed: 40%

Employees

- Career employees in 2012: 528,458 (34% below 797,795 peak in 1999)
- Workhours in 2012: 1,122 million (down 23% since 2006, down 31% since 2000)
- Compensation expenses in 2012: \$47.7 billion
- Biweekly cost of salaries and benefits: \$1.8 billion

Facilities and Transportation

- Buildings in real estate inventory: 8,606 owned, 23,998 leased.
- Postal Service-managed retail offices: 31,272
- Major mail processing plants (P&DC): 241
- Postal-owned vehicles: 212,530 — the largest civilian fleet in the world
- Transportation purchased from private sector: \$6.6 billion

Miscellaneous Statistics

- Mailing industry annual revenue: \$1.3 trillion
- Jobs supported by the mailing industry: 8.4 million, or 6% of all U.S. jobs
- \$15 billion in worksharing (operations by the private sector for a discount)
- Percent of FedEx's ground shipments the Postal Service delivered in 2011: 30%
- Delivery points in 2012: 152 million (an increase of 654,560 from 2011)
- Delivery routes in 2012: 226,999

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