



Office of Inspector General | United States Postal Service

RISC Report

A Closer Look at Postal Labor Costs

Report Number RISC-WP-20-001 | December 2, 2019




Prefunding
Retiree Health
Benefits


Salary


Workers'
Compensation


Pension
Liabilities


Benefits

Table of Contents

Cover	
Executive Summary	1
Executive Summary	1
Observations.....	3
Introduction	3
Overview of Labor Costs	3
The Big Picture — Compensation, Workhours, and Workforce	5
Which Postal Operations Drive Compensation and Benefits Costs?.....	8
A Closer Examination of Clerk and Mail Handler Costs	17
Labor Costs Vary by Region	21
Retirement-Related Costs	24
Unfunded Pension Liability and Retiree Health Benefit Payments.....	25
Workers' Compensation	26
Conclusion.....	27
Appendices	28
Appendix A: Total Labor Costs, FYs 2009 - 2018.....	29
Appendix B: Breakdown of Compensation and Benefits.....	30
Appendix C: Number of Postal Service Employees	31
Appendix D: New Non-Career Employee Positions	33
Appendix E: Mail Processing and Window Service Costs	34
Appendix F: Overtime Use	35
Appendix G: Retirement Costs	36
Unfunded Retirement Benefits.....	36
Funding Health Benefits for Future Retirees.....	37
Appendix H: Grievances	39
Appendix I: Management's Comments	40
Contact Information	42

Executive Summary

Executive Summary

The U.S. Postal Service continues to face financial challenges due to declines in letter mail volume. As declines persist, strategic cost control is one of the key factors that must be addressed. Clearly, labor is a critical area, given that it is the greatest component of postal costs — accounting for \$57 billion or 76 percent of total costs in fiscal year (FY) 2018. The U.S. Postal Service Office of Inspector General (OIG) felt it was vital to gain a clearer understanding of the sources of these significant costs and how they have changed in recent years.

Between FYs 2009 and 2018, the Postal Service cut its inflation-adjusted labor costs by 14 percent. However, this is in the context of a 17 percent drop in volume. While there are many reasons that costs should not be expected to fall in lockstep with volume, our analysis raises questions about current cost control efforts and identified areas where additional investigation may be warranted.

Looking at the 10-year trend of inflation-adjusted labor costs, we identified the following additional key findings.

- Carrier costs grew from 43 percent to 48 percent of compensation and benefit costs. This is because the steady growth of delivery points makes cutting carrier costs more challenging relative to other postal operations. As the trend in delivery points is likely to continue, managing its delivery costs will become increasingly important to the Postal Service in the future.
- City carrier costs declined by 11 percent despite increases in delivery points, workhours, and a 54 percent increase in overtime. This decline in costs seems like a significant accomplishment given the growth in delivery points and increases in parcel volume.
- Rural carrier costs increased 8 percent along with a rise in delivery points, workhours, cost per route, and a 280 percent increase in overtime. The upward trend in rural delivery points makes the Postal Service's management of rural delivery costs a challenge as mail volume declines in the future.
- Total clerk and mail handler costs declined by 25 percent, but that decline largely ceased in 2015. The flattening of costs in 2015 is notable because that

Highlights

The Postal Service is a labor-intensive organization, with labor accounting for 76 percent of its costs.

Over the past 10 years:

- Labor costs fell 14 percent, but volume declined 17 percent.
- The number of non-career employees increased 54 percent, while the number of career employees declined by 20 percent.
- The only growth in inflation adjusted compensation and benefits is among rural carriers.
- Overtime costs increased substantially in all major labor categories, and this area requires additional attention.

There is significant regional variation in labor costs, use of overtime, and proportion of career employees, suggesting there may be lessons learned and best practices that could be applied to lower performing areas.

was when a newly-imposed reduction in First-Class Mail service standards was forecast to lower those costs significantly.

- Clerk and mail handler overtime increased by almost 100 percent. This raises questions as to whether non-career employees are being used in the most efficient manner possible.
- Total retirement costs account for almost a quarter of the Postal Service's labor costs.

- Even as the number of total employees declined significantly, both workers' compensation costs and the number of grievances increased. The combination of these factors presents compelling opportunities for further study.

In addition to these trends, we also looked at a snapshot in time and found that labor costs, and factors that influence labor costs, vary widely across the country. These regional data provide interesting information that calls for deeper exploration. For example, we found that labor costs per “adjusted” mail volume range from \$1.07 to \$3.97.¹ Further study into the national variation in labor costs per mail volume may lead to lessons learned and best practices that could be applied to the higher-cost areas.

Furthermore, we found the amount of overtime used across the nation ranged from 3.5 to 18.6 percent of total labor hours. While it appears that higher overtime occurs in geographic areas with a higher cost of living, it is unclear if this relationship fully explains the variations. A more in-depth study of the regional variation of overtime would help determine if increased overtime is primarily driven by higher cost of living or is influenced by other factors as well.

In today's environment of declining mail volume, a thorough understanding of the Postal Service's cost structure is more important than ever. This paper examines the primary cost area — labor — and its components. It provides important groundwork for further analysis and possible implementation of strategic cost control initiatives.

¹ Adjusted mail volume reflects the mix of mail, including mail shape and how much handling incurs.

Observations

Introduction

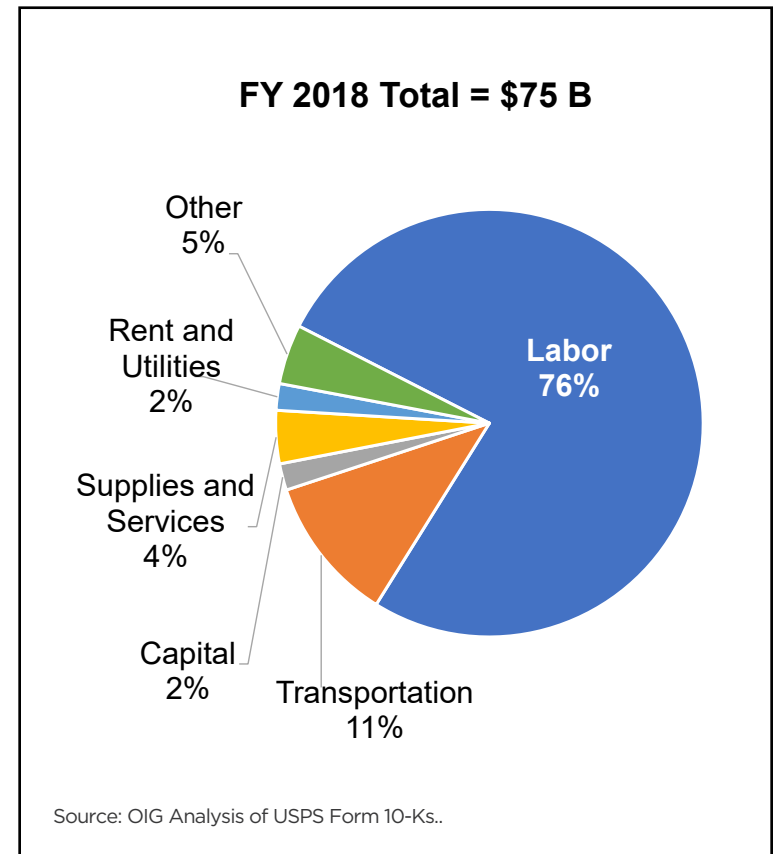
As mail volume continues to fall, the Postal Service must find ways to cut its costs, the vast majority of which are labor. By its very nature, the Postal Service is a labor-intensive organization. Even with the adoption of automation to sort most of the mail, people are still needed to handle the mail in many operations. For example, in mail processing facilities postal employees load and unload trucks, move the mail between operations, sweep and replace containers on mail processing equipment, and manually sort mail that is incompatible with automated sortation. In addition, a large labor force is needed to staff post offices, a key part of providing access to postal services. Furthermore, delivery of mail remains a very labor-intensive activity. Unlike private parcel delivery companies, the Postal Service must deliver to almost every address six days a week.²

As shown in Figure 1, labor costs accounted for 76 percent of total costs in fiscal year (FY) 2018. This was followed by transportation, supplies and services, other, capital, as well as rent and utilities.³ Given the significant size and financial importance of labor costs, the U.S. Postal Service Office of Inspector General (OIG) wanted to get a better understanding of the sources of the Postal Service's labor costs and how it has changed over the last 10 years.⁴

Overview of Labor Costs

Labor costs are composed of four main categories: (1) compensation and benefits, (2) unfunded retirement benefits, (3) retiree health benefits, and (4) workers' compensation. As shown in Figure 2, compensation and benefits is by far the largest category of labor costs — accounting for \$50 billion or 88 percent of all labor costs in FY 2018.⁵ This is followed by retiree health benefits (\$4.5 billion), unfunded pension benefits (\$2.4 billion), and workers' compensation (\$4 million). As discussed later, even though the workers' compensation expense was small in FY 2018, it varied significantly year by year and has been as high as \$3.5 billion during the past 10-year period. The reasons for this volatility are discussed in more detail later in the paper.

Figure 1: Labor Costs Are the Largest Component of Postal Costs



² The language that appears each year in a rider on the appropriations bill is "Provided further, that 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level." See Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, 132 Stat 581 (2018), <https://www.congress.gov/115/plaws/publ141/PLAW-115publ141.pdf>.

³ U.S. Postal Service, *2018 Report on Form 10-K*, November 14, <https://about.usps.com/what/financials/10k-reports/fy2018.pdf>, p. 40. Other costs include vehicle maintenance service, delivery vehicle fuel, information technology and communications, rural carrier equipment maintenance, and miscellaneous other.

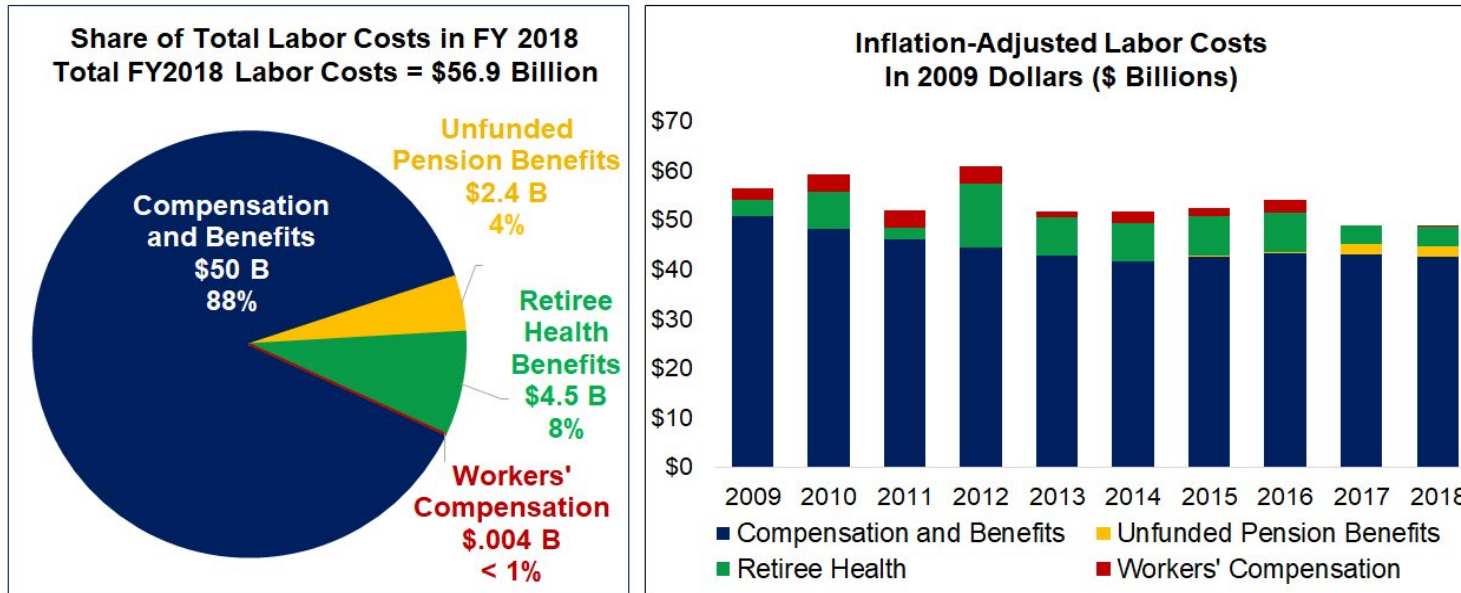
⁴ In order to do a meaningful trend analysis of how labor costs have changed, our study examines costs between FYs 2009 and 2018.

⁵ See [Appendix A](#) for a detailed table showing labor costs for FYs 2009 – 2018.

Figure 2: An Overview of Labor Costs

COMPENSATION AND BENEFITS ARE BY FAR THE LARGEST COMPONENT OF TOTAL LABOR COSTS

In fiscal year 2018, compensation and benefits comprised 88 percent of total labor costs. Inflation-adjusted labor costs have fallen over the past ten years, although there have been year-to-year fluctuations.



Source: OIG Analysis of USPS Form 10-Ks, FYs 2009 – 2018. Numbers may not add due to rounding.

To get a better understanding of how much the Postal Service’s labor costs have truly changed over time, this paper looks at trends between FYs 2009 and 2018 using inflation-adjusted costs.⁶ Adjusting for inflation takes out the effect of the change in the value of the dollar over time and allows us to focus on the true change in labor costs.⁷ Looking at the 10-year trend of labor costs, inflation-adjusted labor costs have declined 14 percent between FYs 2009 and 2018.⁸ This is relative to the overall mail volume decline of 17 percent and comes

despite some large yearly fluctuations due to the payments required to prefund the retiree health obligation.⁹ Given that compensation and benefits comprise such a large portion of labor costs, this paper will mainly focus on a deeper dive into these costs. However, to give a complete picture of the Postal Service’s labor costs, it also includes a brief discussion of retirement-related costs and workers’ compensation costs.

6 To adjust for inflation, we used the monthly Consumer Price Index for Urban Consumers (CPI-U) as reported by the Bureau of Labor Statistics at <https://www.bls.gov/home.htm>. While this index may not fully represent the cost pressures on the Postal Service, it is used as a general measure of how much the value of the dollar has changed over time.
 7 In other words, the costs for FY 2009 will match those reported in the FY 2009 postal reports, but the costs for FYs 2010 – 2018 will be adjusted for inflation, and therefore, will be lower than the reported costs for those years.
 8 OIG analysis of information in the Postal Service’s Form 10-Ks and Bureau of Labor Statistics.
 9 OIG analysis of Postal Service data.

The Big Picture — Compensation, Workhours, and Workforce

Over the past 10 years, inflation-adjusted compensation and benefits declined by 16 percent, as shown by the blue bars in Figure 3. However, while overall costs have fallen during this period, the actual decline was in the first six years, between FYs 2009 and 2014. Since FY 2014, inflation-adjusted compensation and benefit costs have risen and fallen but have not returned to the FY 2014 level.¹⁰

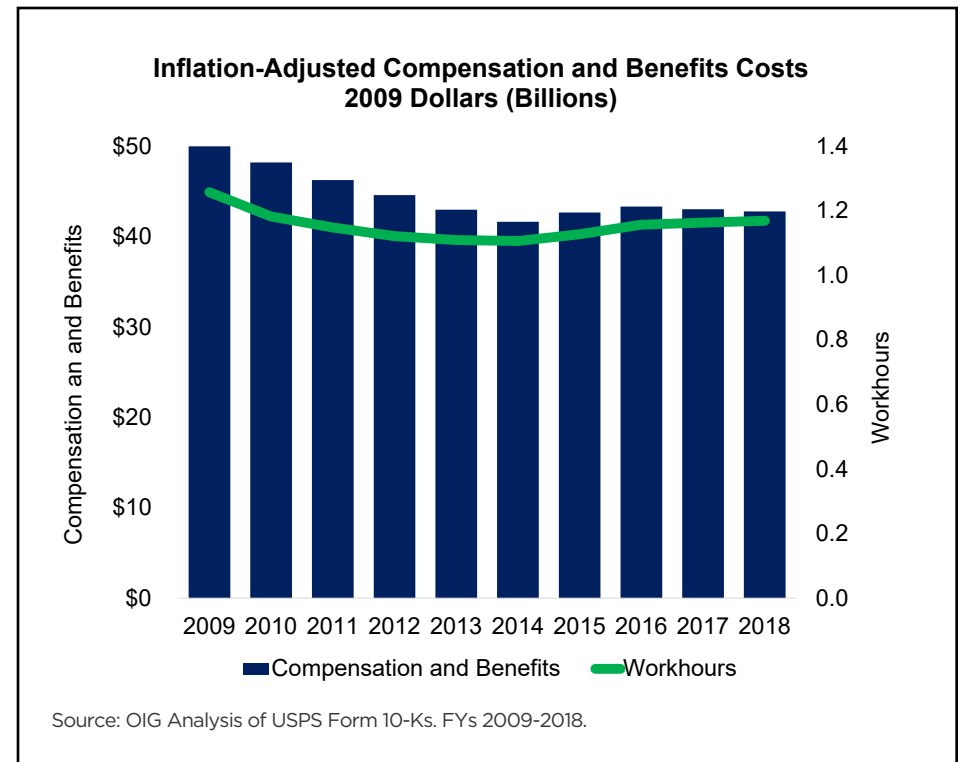
In its official reports, the Postal Service has stated that the overall increase in operating expenses from FY 2014 to FY 2015 was due to several factors, including contractually-obligated compensation escalations, higher Federal Employee Retirement System (FERS) contribution rates, and the increase in labor hours needed to handle the growing parcel volume.¹¹ Given these factors, this may be an area where further exploration is needed to identify opportunities to offset these cost increases.

Workhours follow the same trend. The trend of compensation and benefits identified above is likely driven in part by workhours, as they follow the same pattern, as shown by the green line in Figure 3. Between FYs 2009 and 2014, the Postal Service experienced a 12 percent decline in total workhours. After 2014, however, workhours started to rise and increased by 63 million over the subsequent four years.

Nevertheless, looking at workhours alone does not tell the whole story. We also need to consider the size and composition of the workforce. Figure 4 shows the 10-year trend of the number of career, non-career, and total employees. It is not surprising that the 10-year trend for the total number of employees follows a similar pattern to the 10-year trend for compensation and benefits. What is more interesting is that the Postal Service has been able to increase the number

After 2014, workhours started to rise and increased by 63 million over the subsequent four years.

Figure 3: Workhours and Compensation and Benefits (FYs 2009 – 2018)



of non-career employees significantly. Over the past 10 years, the number of non-career employees has increased by 54 percent, from 89,000 in FY 2009 to 137,000 in FY 2018.¹² In contrast, the number of career employees has fallen by 20 percent.

Over the past 10 years, the number of non-career employees has increased by 54 percent while the number of career employees has fallen by 20 percent.

¹⁰ See Appendix B for a more detailed discussion of compensation and benefits.

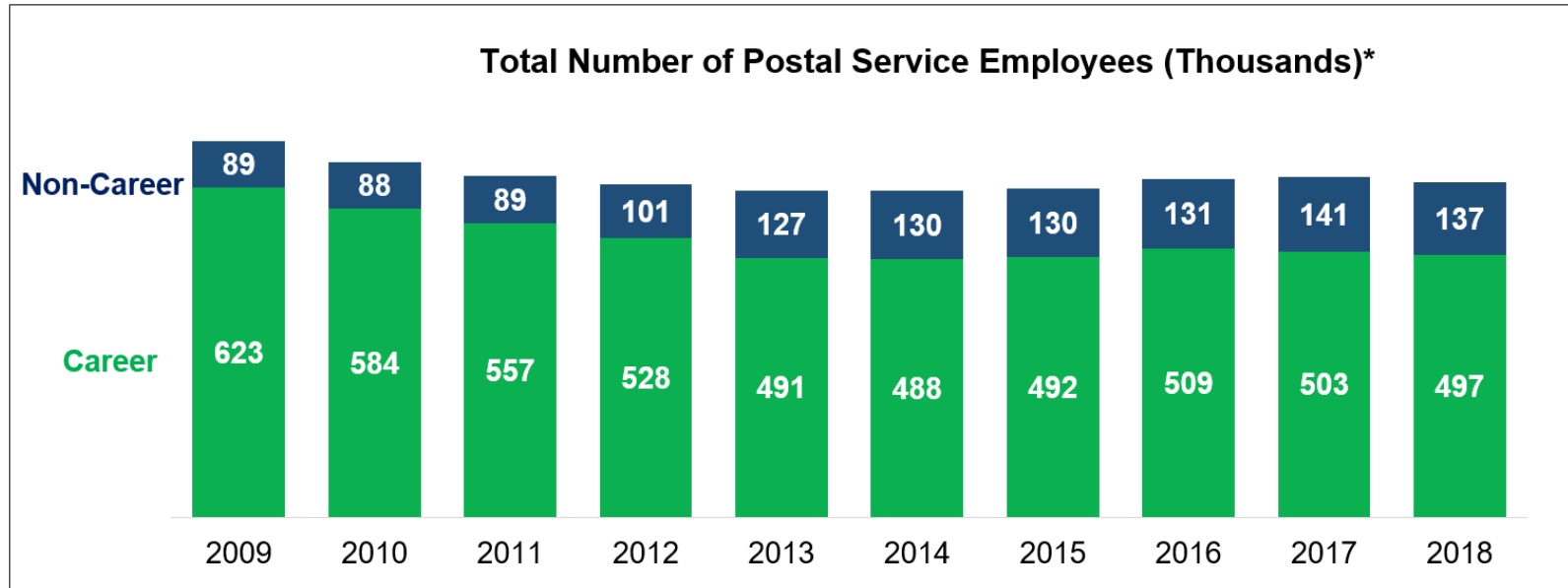
¹¹ U.S. Postal Service, 2015 Report on Form 10-K, <https://about.usps.com/what/financials/10k-reports/fy2015.pdf>, p. 14.

¹² For a more detailed table showing the growth of various types of employees see Appendix C.

Figure 4: Number of Postal Service Employees (FYs 2009 – 2018)

THE POSTAL SERVICE HAS INCREASED ITS USE OF NON-CAREER EMPLOYEES BY 54 PERCENT OVER THE LAST TEN YEARS

Over the last 10 years, the Postal Service has reduced the total number of employees by 11 percent. But this overall decline does not tell the full story. While reducing career employees by 20 percent, it increased the number of non-career employees by 54 percent.



Source: OIG Analysis of USPS Form 10-Ks, FYs 2009 – 2018.

* These numbers reflect the number of employees reported in each year's Form 10-K, the actual number during the year will fluctuate as employees leave and others are hired.

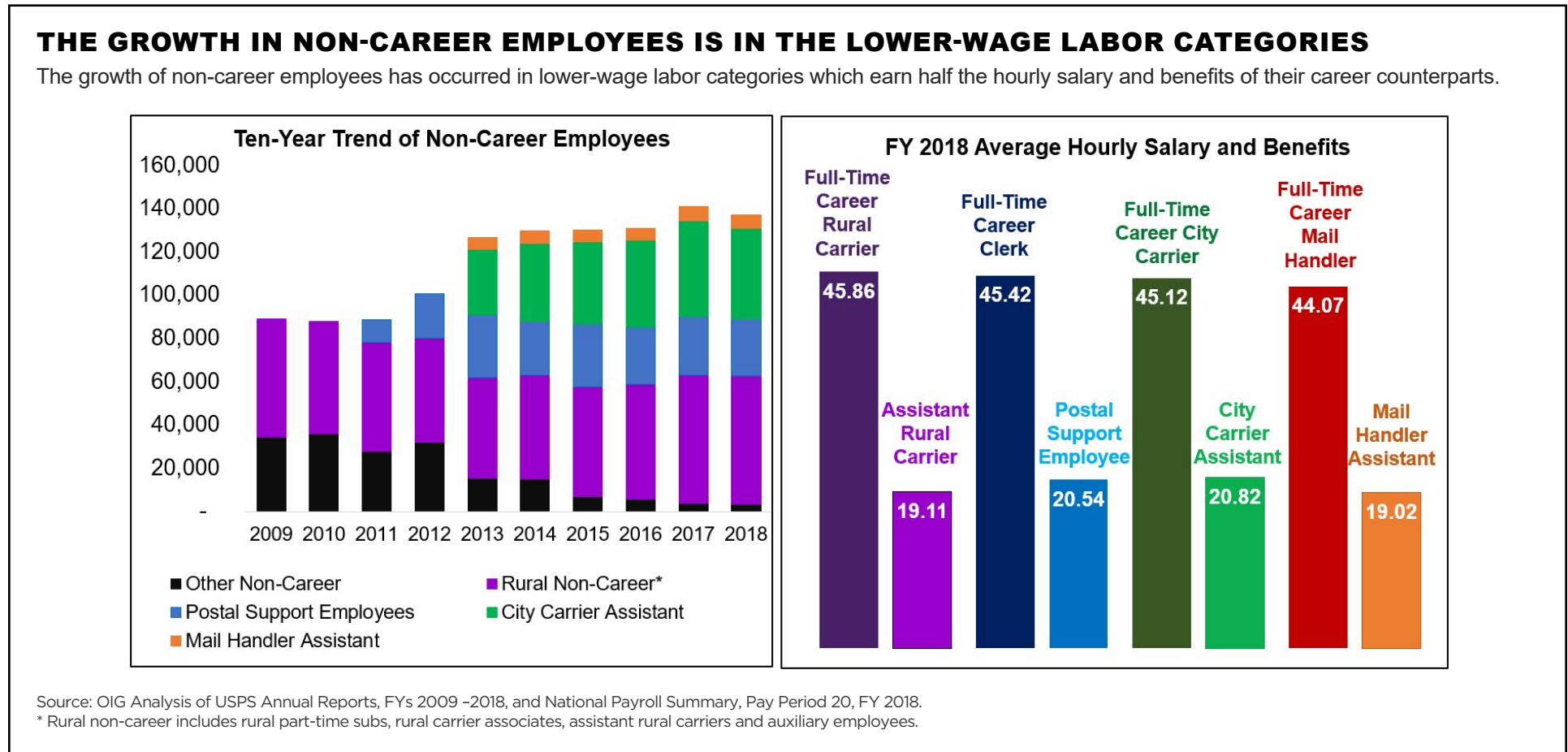
Furthermore, the growth in non-career employees has been mainly in the lower-cost non-career categories that have been introduced since 2011. These include postal support employees (PSEs), mail handler assistants (MHAs), city carrier assistants (CCAs), and assistant rural carriers (ARCs).¹³ As can be seen in Figure 5, in FY 2018, the average hourly wage including benefits for the new non-

career positions was less than half that of the corresponding career positions.¹⁴ While these new positions cost the Postal Service less in terms of hourly wages and benefits, these cost savings need to be balanced against any potential additional costs associated with these new positions — training, turnover, lower productivity, etc.¹⁵ Moreover, it seems logical that the Postal Service could save

13 As part of the 2010 agreement, the Postal Service lowered the starting wage of the existing non-career position in rural carriers called the rural carrier associate (RCA) starting in August 11, 2012. When the Postal Service created the new assistant rural position in the FY 2015 agreement, they adopted the same starting salary as the RCAs. See Appendix D for a more detailed description of when these positions were introduced and the limitations the Postal Service has in using these types of employees.
 14 U.S. Postal Service, *National Payroll Summary Report Pay Period 26*, FY 2018, https://www.prc.gov/dockets/usps_reports?page=3.
 15 During a meeting with postal management, they stated that while they have not done a quantitative analysis, they are certain that the significant cost savings that occur as a result of utilizing the lower-salaried non-career employees exceeds any additional costs associated with them.

money through these new positions by utilizing their more flexible schedules to reduce overtime.¹⁶ Yet, as we discuss later in this paper, overtime costs have grown over the last 10 years. These questions may warrant further exploration.

Figure 5: Non-Career Employees

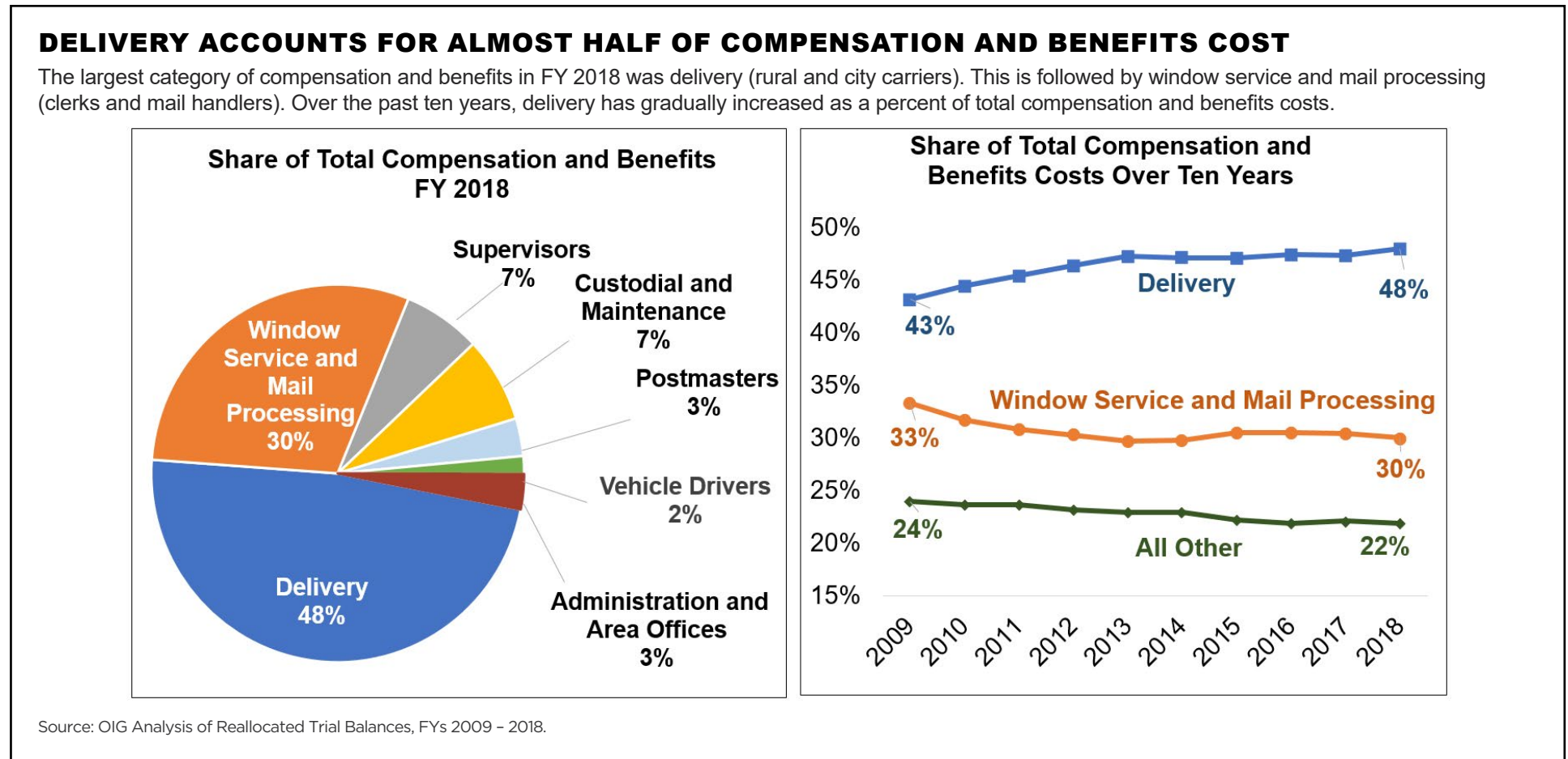


¹⁶ For a discussion of the potential overtime savings of postal support employees, see USPS OIG, *Use of Non-Traditional Full-Time and Postal Support Employee Positions in Processing Operations*, Report Number NO-AR-13-003, May 17, 2013, <https://www.uspsaig.gov/document/use-non-traditional-full-time-and-postal-support-employee-positions-processing-operations>, p. 5.

Which Postal Operations Drive Compensation and Benefits Costs?

To get a better understanding of compensation and benefit costs, it helps to see which postal operations account for the majority of these costs.¹⁷ Figure 6 shows the share of compensation and benefits costs by operation: window service and mail processing, delivery, supervisors, custodial and maintenance, postmasters, vehicle drivers, and administration and area offices.¹⁸

Figure 6: Compensation and Benefits by Labor Category



¹⁷ By “operations,” we mean how the cost components are reported in the Postal Service’s Cost Segments and Components Report. Some cost components, like transportation (cost segment 14), do not have any labor costs. Supervisor costs are reported separately in their own category.

¹⁸ U.S. Postal Service, *Cost Segments and Components Reconciliation to Financial Statements and Accounts Reallocations (Reallocated Trial Balance)*, USPS-FY18-5, December 28, 2018, <https://www.prc.gov/dockets/document/107643>. For the remainder of this paper, these files will be referred to as the “Reallocated Trial Balances.”

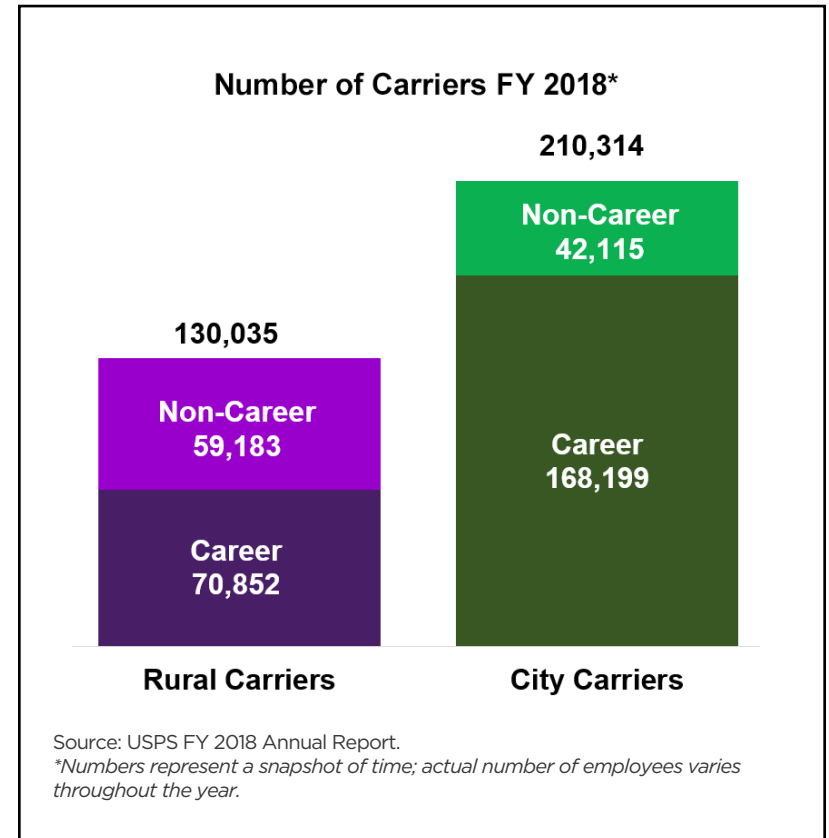
In FY 2018 almost half of the Postal Service's compensation and benefit costs were related to the delivery function — city and rural carriers (Figure 6).¹⁹ Furthermore, this relative share has been increasing over the past 10 years — from 43 percent in FY 2009 to 48 percent in FY 2018.²⁰ The next largest category of compensation and benefits is window service and mail processing. This category includes labor costs associated with clerks and mail handlers. Over the past 10 years, this share of the total has fallen, from 33 percent in FY 2009 to 30 percent in FY 2018.²¹ These changes in the relative shares of total compensation and benefits costs are consistent with the fact that even as overall mail volume is declining, the number of delivery points continues to grow. In addition, parcel volumes grew between FYs 2009 and 2018, especially parcels dropped at the destination delivery unit.²² While parcels dropped at the destination delivery unit avoid most mail processing costs, they still incur the cost of delivery. So, it stands to reason that it will be more challenging for the Postal Service to reduce labor hours in delivery relative to other areas such as mail processing. Since most compensation and benefits costs are associated with delivery, window service, and mail processing, we examine the costs associated with these labor categories more closely.

With the number of delivery points growing, it will be more challenging for the Postal Service to reduce labor hours in delivery relative to other areas such as mail processing.

A Closer Examination of Delivery Costs

The Postal Service has two types of carrier crafts: rural carriers and city carriers.²³ Whether carriers are considered rural or city is not necessarily a reflection of the geographic region they cover. While there is some correlation — rural carriers tend to serve more rural areas — the biggest distinction between the two is based on how they are compensated.²⁴ City carriers' compensation is based on the hours they work.²⁵ In contrast, most rural carriers' compensation is based on an annual evaluation of their route, regardless of how much time it takes them to cover the route on each individual day.²⁶ As shown in Figure 7, in FY 2018, there were roughly 130,000 rural carriers and 210,000 city carriers.

Figure 7: Rural and City Carriers



¹⁹ OIG Analysis of Postal Service's Reallocated Trial Balances, FYs 2009 – 2018.

²⁰ Ibid.

²¹ Ibid.

²² In August 2019, USPS reported that its third quarter parcel volume was lower than the previous year. USPS, Quarter III, 2019 Report on Form 10-Q, August 9, 2019, <https://about.usps.com/who-we-are/financials/financial-conditions-results-reports/fy2019-q3.pdf>, p. 30.

²³ City carriers are covered by an agreement with the National Association for Letter Carriers (NALC) and rural carriers are covered by an agreement with the National Rural Letter Carriers Association (NRLCA).

²⁴ For the history of how rural routes were developed, see USPS OIG, *Rural and Urban Origins of the U.S. Postal Service*, Report No. RISC-WP-19-007, August 26, 2019, <https://www.uspsoig.gov/sites/default/files/document-library-files/2019/RISC-WP-19-007.pdf>, pp. 11-12.

²⁵ "National Association of Letter Carriers National Agreement, 2016-2019," <https://www.nalc.org/workplace-issues/resources/agreement/National-Agreement-2016-2019.pdf>, pp. 18-19.

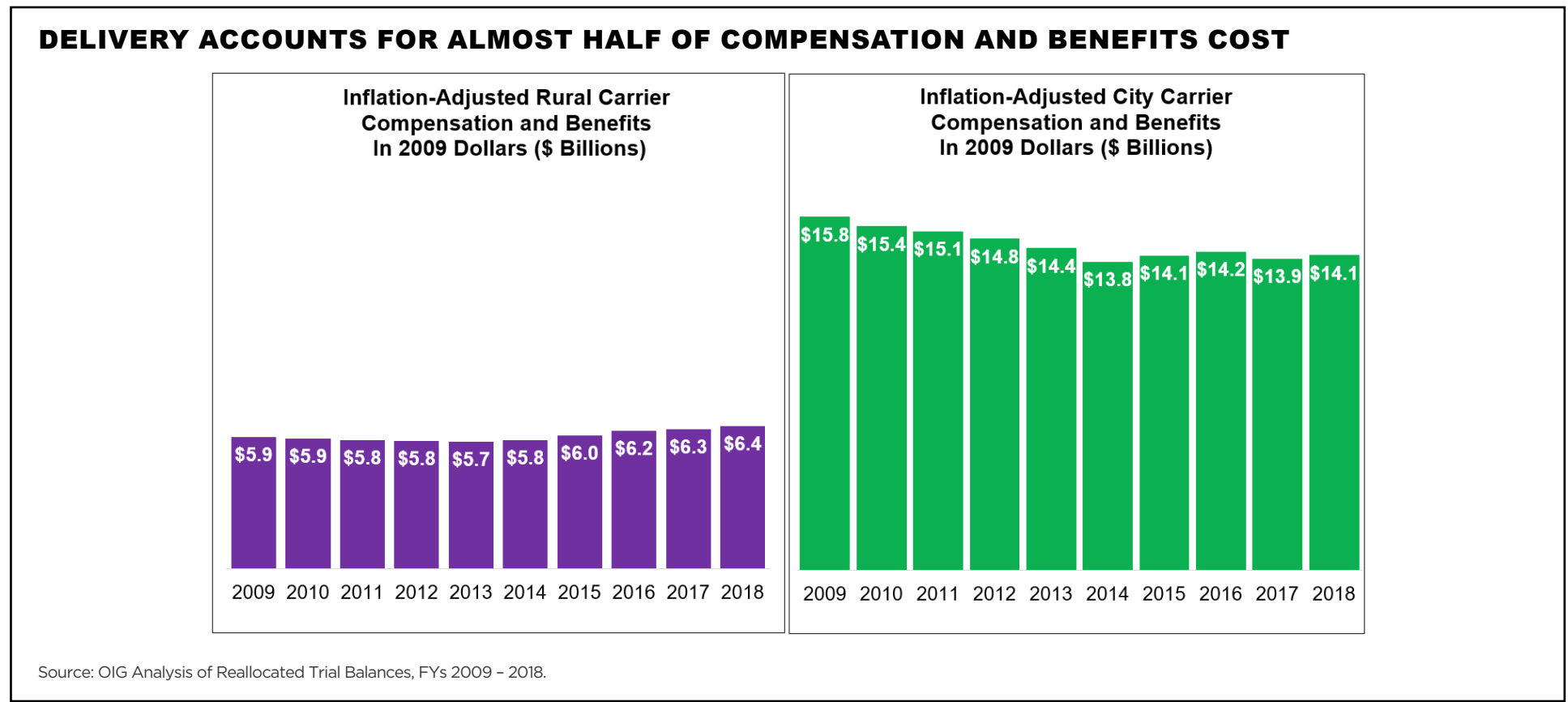
²⁶ U.S. Postal Service, *Summary Description of USPS Development of Costs by Segment and Components*, <https://www.prc.gov/dockets/document/96555>, p. 10-1.

As mentioned earlier, managing delivery costs is likely challenging for the Postal Service as the total number of delivery points is increasing each year. Between FYs 2009 and 2018, the number of delivery points increased by 8.4 million.²⁷ Furthermore, the Postal Service’s parcel volume experienced significant growth during this time, especially parcels dropped at the destination delivery unit. Due to their size, parcels may result in the carrier deviating from his or her route, leading to higher delivery costs.²⁸

City and Rural Carrier Costs Diverged Over the Past Decade

Looking at the 10-year trend shows that total inflation-adjusted carrier compensation and benefits costs follow the same pattern as total compensation and benefits — declining overall during the 10-year period with a low point in FY 2014.²⁹ City carrier costs also follow this same trend. Rural carrier compensation and benefits, on the other hand, tell a different story. The lowest point during the 10-year period occurred in FY 2013. Even more notable, inflation-adjusted rural carrier compensation and benefits increased during the past 10 years — from \$5.9 billion to \$6.4 billion, an increase of 8 percent.³⁰

Figure 8: Rural and City Carrier Compensation and Benefit Costs (FYs 2009 – 2018)



27 OIG analysis of Postal Service’s Annual Reports, FYs 2009 – 2018.
 28 USPS Response to OIG questions on August 8, 2019.
 29 OIG Analysis of Postal Service’s Reallocated Trial Balances, FYs 2009 – 2018.
 30 Ibid.

Rural Carrier Costs

There are several possible reasons why rural carrier costs have increased while city carrier costs declined. One reason given by Postal management is that, unlike city carriers, rural carriers had already realized some of the savings associated with non-career positions prior to the ten-year period we studied. This is because rural carriers had the non-career position of rural carrier associate in existence during the full ten years. City carriers, on the other hand, introduced the city carrier assistant position in FY 2013. However, there was still some potential for savings for rural carriers due to the non-career positions. The starting wage of the rural carrier associates was lowered in FY 2012 and a new non-career position of assistant rural carrier was introduced in FY 2015.³¹

Another likely reason for the disparity between rural carrier and city carrier costs is how the carriers are compensated for the delivery of parcels. As mentioned earlier, rural carriers are compensated based on the evaluation of their route, and the evaluation system allows more time for parcels than for letters.³² While city carriers will also feel some cost pressure from the growth in parcels, their compensation is not directly tied to the number of parcels. Instead, city carrier compensation will only increase when additional parcels result in more time being

spent on their routes. There is likely a strong correlation between the growth in parcels and time spent on city routes. However, some parcels are small enough to be carried along with the rest of the mail, and therefore, likely add little to no time to the delivery route.

There is another factor that might help explain why inflation-adjusted rural carrier costs have risen over the past 10 years while city carrier costs have not. As shown in [Figure 9](#), while the overall number of delivery points has risen almost 6 percent over the 10-year period, the number of rural delivery points has grown 14 percent. More importantly, even with the Postal Service's efforts to consolidate routes, the number of rural routes has grown by 4.5 percent.³³ This increase in rural routes likely contributed to the increase in rural carrier costs over the 10-year period. However, it appears that there is more going on than just the increase in the number of routes. Rural carrier workhours increased 13 percent over the 10-year period, and the cost per rural route increased by 4 percent.³⁴

While the overall number of delivery points has risen almost 6 percent over the 10 year period, the number of rural delivery points has grown 14 percent.

³¹ See [Appendix D](#) for a discussion of the non-career positions.

³² The "rural route evaluation worksheet" shows a higher weight for parcels than for other shapes of mail. Evaluations are done on an annual basis. So, an increase in parcels throughout the year may not result in higher pay until the next evaluation. However, there are some exceptions. For example, rural carriers can receive overtime compensation if their route consistently takes longer than 40 hours to deliver over any consecutive 52-week period.

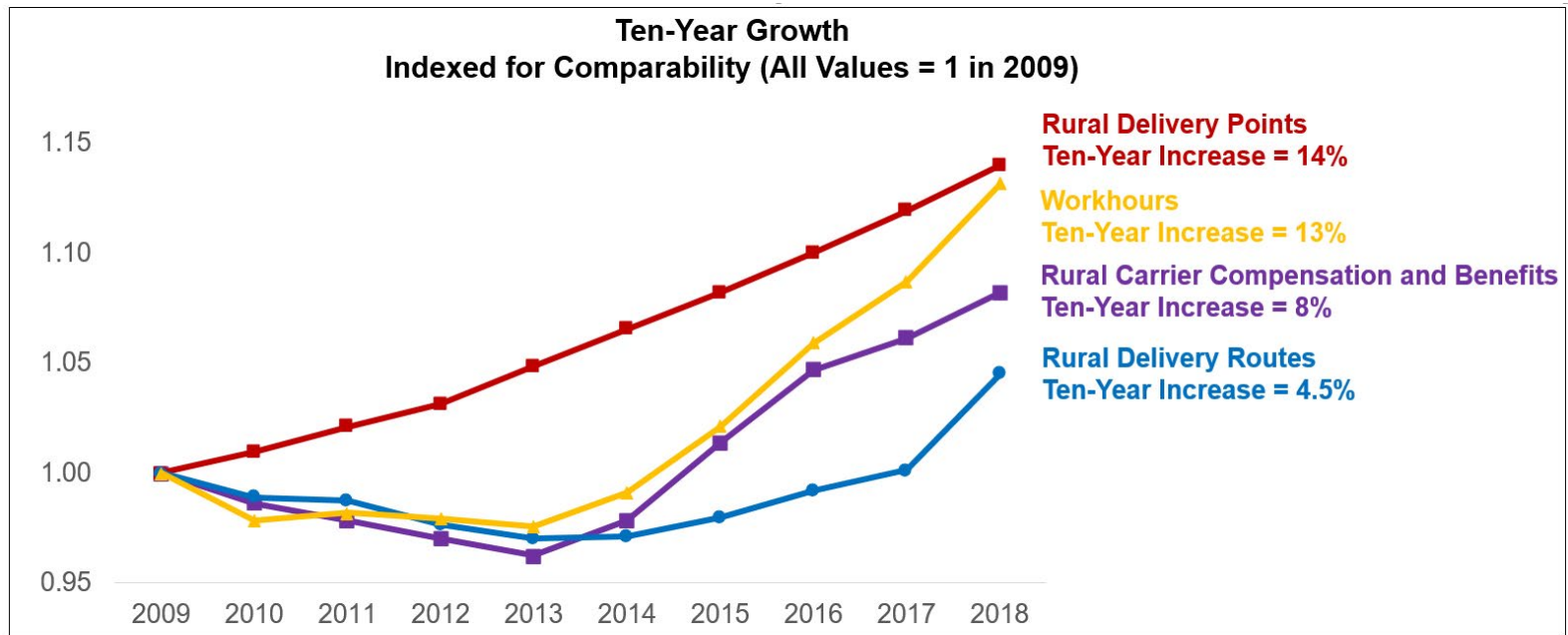
³³ OIG Analysis of Postal Service's Annual Reports and Comprehensive Statement on Operations, FYs 2009 – 2018.

³⁴ OIG Analysis of Postal Service's Annual Reports, Comprehensive Statement on Operations, and Reallocated Trial Balances, FYs 2009 – 2018.

Figure 9: Annual Change in Rural Carrier Costs, Delivery Points, Routes, and Workhours (FYs 2009 – 2018)

THE INCREASE IN RURAL CARRIER COSTS IS PARTIALLY DRIVEN BY THE INCREASE IN THE NUMBER OF RURAL DELIVERY POINTS AND DELIVERY ROUTES

Between FYs 2009 and 2018, the number of rural carrier delivery points has increased by 14 percent. Even with the Postal Service's efforts to consolidate routes, this has led to a 4.5 percent increase in the number of rural delivery routes.



Source: OIG Analysis of Reallocated Trial Balances, FYs 2009 – 2018.

Another way to look at what is driving the cost of carriers is to look at how much of the rural carrier compensation costs are related to the following type of compensation:

- **Straight-Time** – The compensation for career and non-career employees based on normal work hours, not including overtime pay and premium pay for working on Sundays.
- **Overtime** – This includes both overtime (time and a half) and penalty overtime (double-pay).³⁵
- **Other** – the “other” category includes things such as annual leave, sick leave, and holiday leave.³⁶

Figure 10 shows the breakdown of straight-time, overtime, and other costs for rural carriers between FYs 2009 and 2018. Inflation-adjusted straight-time

increased 2 percent for the entire time-period. Rural carrier overtime costs, however, increased significantly over the 10-year period — 280 percent. The Postal Service has said there are three reasons that overtime costs increased so much for rural carriers between FYs 2009 and 2018.³⁷ First, the choice of FY 2009 as the base year creates a low starting point, as volume dropped that year, and as a result, the Postal Service was overstaffed and needed less overtime than in a typical year. Second, the growth in parcel volume after FY 2009 outpaced its infrastructure.³⁸ A third reason for the increase in overtime costs is the introduction of Sunday delivery in FY 2014.³⁹ However, the rural carrier overtime trend shows a significant and steady increase and raises some interesting questions that may warrant further study. Why has the use of the more flexible labor categories not allowed the Postal Service to better manage its overtime costs? Is this just the new normal, or is there more the Postal Service can do to manage overtime costs?

35 U.S. Postal Service, *ELM Issue 46, Employee and Labor Relations Manual*, Sections 434.131 and 434.133 https://about.usps.com/manuals/elm/html/elmc4_015.htm. Overtime pay is 150 percent of straight-time pay, and penalty overtime pay is two times the straight-time pay.

36 For the city and rural carriers, the “other” category also includes a small amount of costs related to premiums paid to workers scheduled to work on Sunday, as it was too small to show up as a separate category. For the purposes of this analysis, we do not include travel, relocation, or lump-sum bonuses.

37 In addition, the Postal Service stressed that the use of overtime is not inherently a bad thing. Overtime is a tool they use to manage labor costs. When possible, postal management will use non-career employees to fill extra hours, however sometimes a non-career employee is not available. According to the Postal Service, the use of overtime is less expensive than hiring new employees once all the costs of a full-time employee are taken into consideration. The Postal Service provided us with a spreadsheet that shows that the overtime rate is lower than the straight time rate (with benefits) even before adding in the normal cost of the retiree-health benefit obligation.

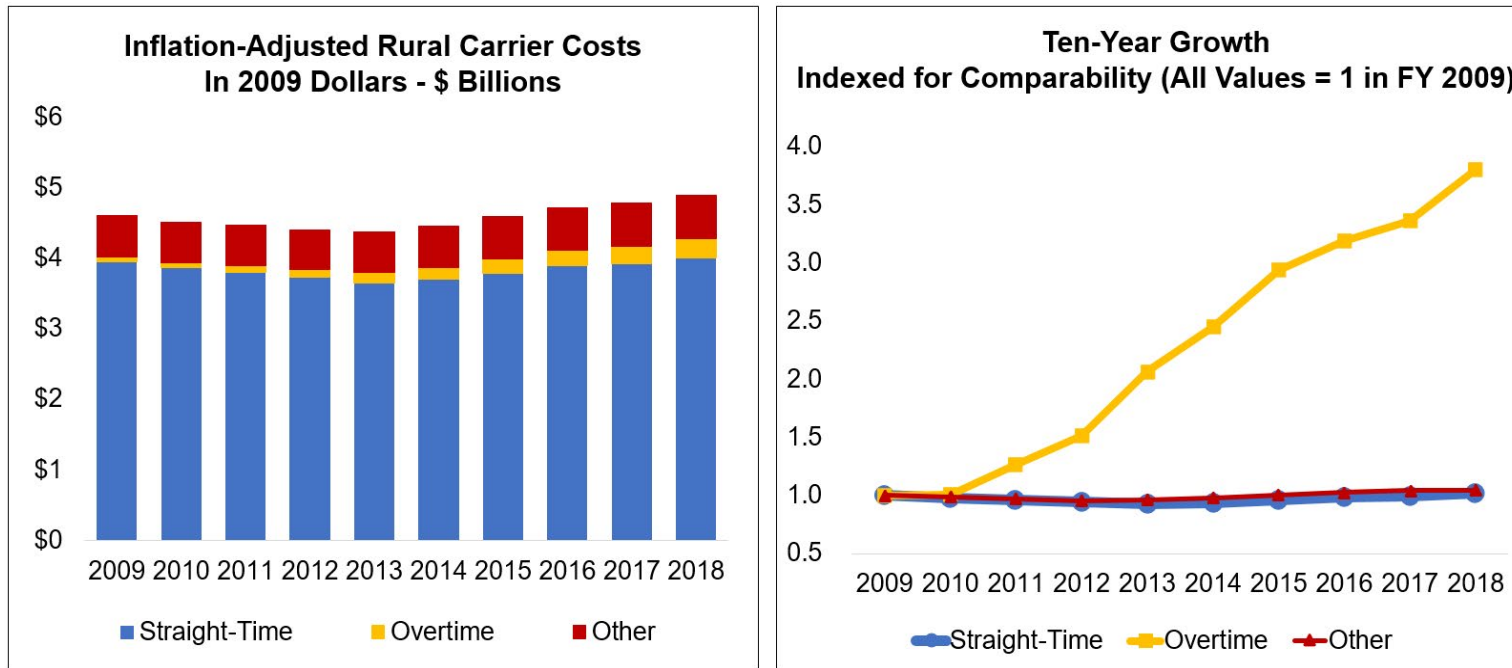
38 The Postal Service said the first two applied to overtime for all labor.

39 The assistant rural carrier position is used for Sunday delivery, but it was not introduced until FY 2015.

Figure 10: Rural Carrier Compensation (FYs 2009 – 2018)

USE OF OVERTIME FOR RURAL CARRIERS INCREASED SUBSTANTIALLY OVER THE PAST TEN YEARS

While over the past ten years, the Postal Service was able to maintain only a small growth in rural carrier straight-time cost, overtime costs for rural carriers increased 280 percent during this same time period.



Source: OIG Analysis of Reallocated Trial Balances, FYs 2009 – 2018.

It should be noted that overtime cost is relatively low for rural carriers compared to the other labor categories.⁴⁰ For example, in FY 2018, overtime costs for rural carriers accounted for only 5 percent of total compensation. Comparatively, the portion of compensation due to overtime was 19 percent for mail handlers, 18 percent for city carriers, and 14 percent for clerks. The relatively low use of overtime for rural carriers is due to how they are compensated.⁴¹

City Carrier Costs

The trend of city carrier costs is much different from that of rural carriers over the past 10 years. Between FYs 2009 and 2018, the number of city delivery points increased by 4 percent. During the same period, the number of city carrier routes still declined by 5 percent, demonstrating that the Postal Service’s efforts to consolidate routes allowed it to absorb the small growth in city delivery points

40 OIG Analysis of Postal Service’s Reallocated Trial Balances, FYs 2009 – 2018.

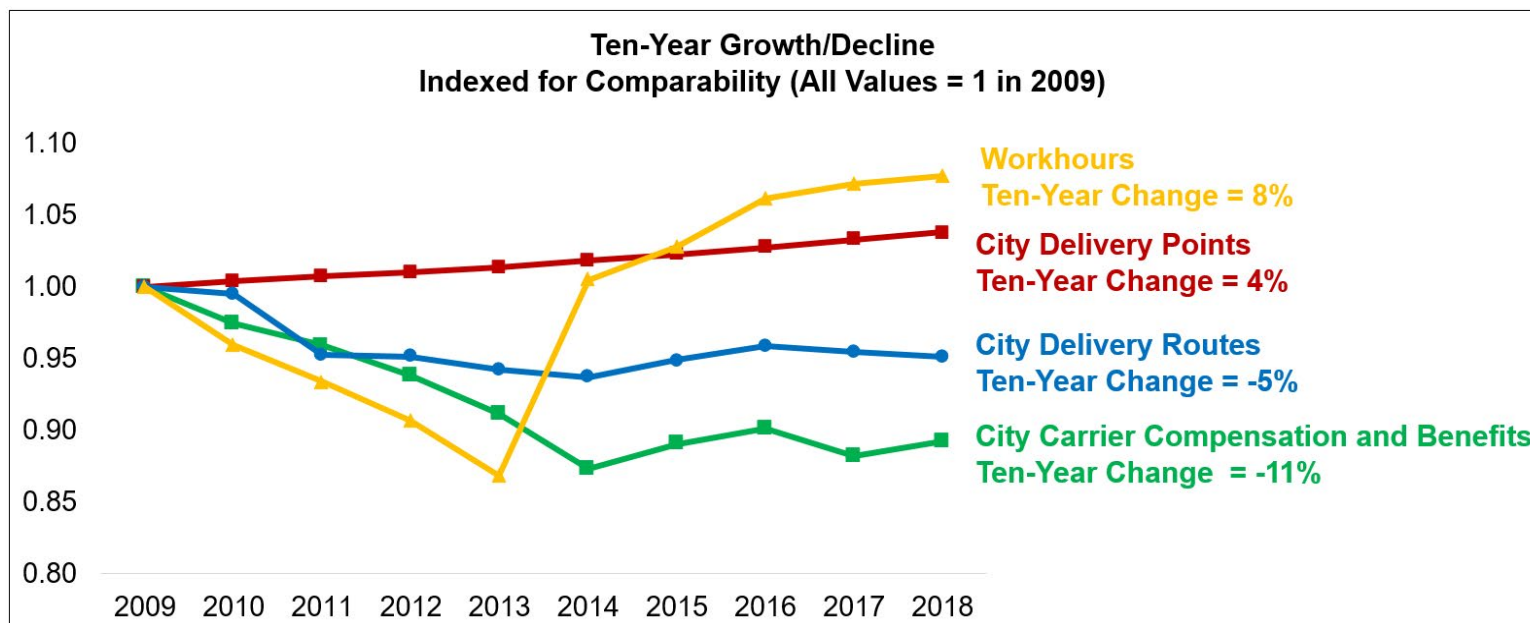
41 As discussed earlier, most rural carriers are paid based on their evaluated routes, and therefore do not necessarily receive additional overtime if they work more than their route evaluation. The national agreement between NRLCA and the Postal Service outlines specific areas where overtime is granted, including cases where a rural carrier regularly takes more than 40 hours to complete their route. “Agreement between the United States Postal Service and the National Rural Letter Carriers’ Association, 2015-2018,” pp. 16 and 18.

(Figure 11).⁴² These consolidation efforts likely played a role in the overall decline of inflation-adjusted city carrier costs during the 10-year period.

Figure 11: Annual Change in City Carrier Costs, Delivery Points, Routes, and Workhours (FYs 2009 – 2018)

CITY CARRIER COSTS DECLINED OVER THE PAST TEN YEARS DESPITE AN INCREASE IN THE NUMBER OF DELIVERY POINTS AND WORKHOURS

The Postal Service’s efforts to consolidate delivery routes helped reduce inflation-adjusted city carrier costs over the past ten years. In addition, since costs declined as workhours increased, some of the decline was likely due to the use of lower-wage city carrier assistants.



Source: OIG Analysis of USPS Annual Reports, Comprehensive Statement of Operations, and Reallocated Trial Balances, FYs 2009 – 2018.

During this 10-year period, city carrier workhours increased by 8 percent. As shown in Figure 12, the main cause of the decline in city carrier costs stems from a decline in straight-time costs and other costs.⁴³ The combination of these two trends — an increase in workhours coupled with a decline in straight-time costs

— suggests that the cost decline is partially driven by the use of the lower-salary city carrier assistants.⁴⁴ Even with the cost savings, however, the 54 percent increase in overtime suggests that there is likely room for further improvement.⁴⁵ As mentioned earlier, the Postal Service has given some reasons for the increase

⁴² OIG Analysis of Postal Service’s Reallocated Trial Balances, FYs 2009 – 2018.

⁴³ Ibid.

⁴⁴ According to the Postal Service, the cost decline after FY 2012 is a result of labor negotiations, including the introduction of the city carrier assistant position, the introduction of a two-tiered salary structure, and a change in cost-of-living adjustments.

⁴⁵ The 54 percent increase is calculated comparing FY 2009 to FY 2018. Alternatively, comparing FYs 2008 and 2010 to FY 2018 results in increases of 20 percent and 39 percent, respectively.

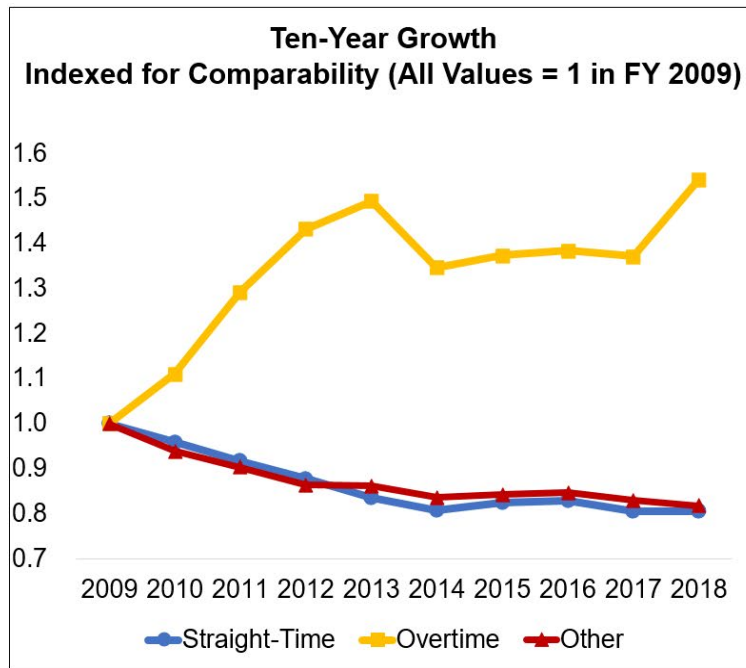
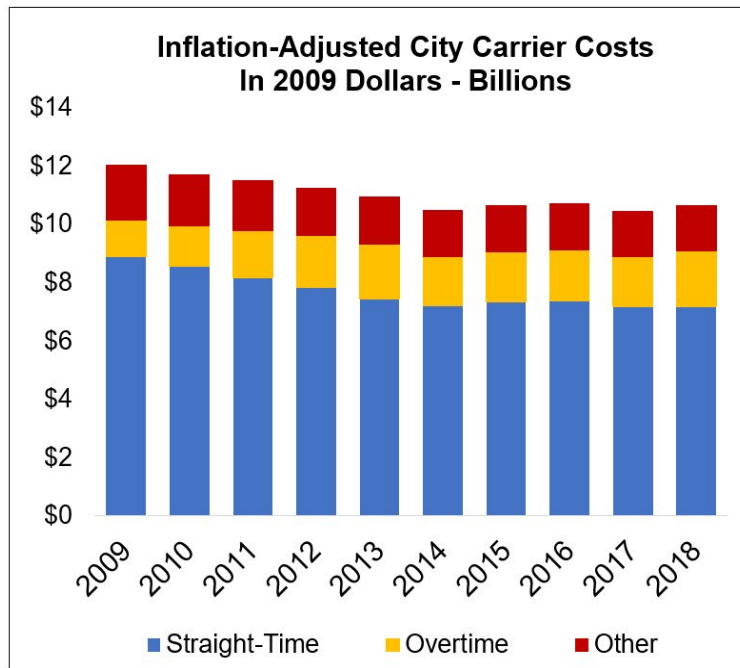
in overtime for all functions. These were: (1) FY 2009 was a historically low year for overtime because the volume decline led it to being overstaffed, and (2) the increase in parcels over the past ten years has led to more overtime. Perhaps,

in addition to the growth in parcels, overtime for city carriers is a byproduct of route consolidations, the use of non-career carriers, or turnover of non-career employees.

Figure 12: City Carrier Compensation (FYs 2009 – 2018)

DESPITE AN OVERALL DECLINE IN CITY CARRIER COSTS, OVERTIME COSTS FOR CITY CARRIERS HAVE BEEN GROWING OVER THE LAST TEN YEARS

While the Postal Service was able to successfully reduce straight-time and other costs for city carriers over the past ten years, overtime costs for city carriers increased 54 percent during the same period.



Source: OIG Analysis of Reallocated Trial Balances, FYs 2009 – 2018.

The bottom line is that when it comes to delivery costs, the story is nuanced. While it is true that mail volume has continued to decrease overall, delivery costs have faced an upward pressure as the number of both city and rural delivery points has steadily increased between FYs 2009 and 2018. From the analysis, we see that the Postal Service, through the use of lower-paid employees and

delivery route consolidation, has been somewhat successful at controlling city carrier costs, albeit less so in the last five years. Yet, the same cannot be said for rural carrier costs, which have seen steady increases in both straight time and overtime costs, resulting in rising compensation and benefits for the past 10 years.

A Closer Examination of Clerk and Mail Handler Costs

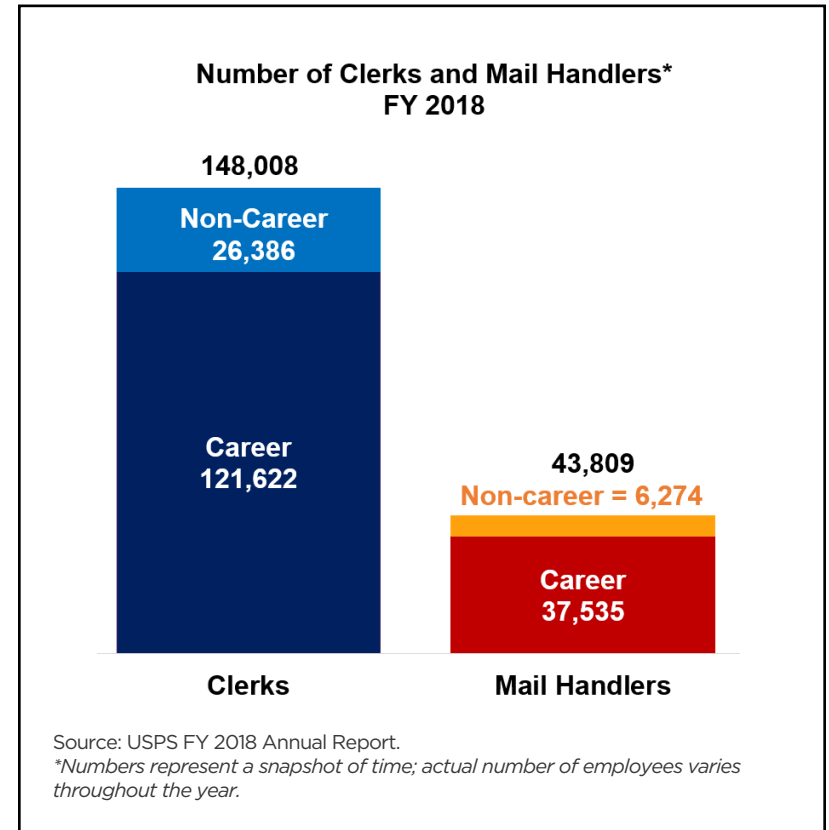
Window service and mail processing is covered by both clerks and mail handlers. There are clerks in both the window service and the mail processing functions. In mail processing, clerks are postal employees who distribute or sort mail. In window service, clerks assist customers at a retail window at a post office, station, or branch.⁴⁶ Mail handlers are postal employees who load, unload and move mail, as well as perform duties related to the moving and processing of mail.⁴⁷ In FY 2018 there were approximately 148,000 clerks and 44,000 mail handlers (Figure 13).⁴⁸

While the overall cost of clerks and mail handlers would not be expected to be very sensitive to the increase in the number of delivery points, it is likely affected by the overall decline in mail volume and the change to a more parcel-heavy mail mix. However, the overall effect of parcel growth on mail processing is unclear. While parcels cost more to process, they are more likely to be dropped closer to the destination and in some cases receive little to no mail processing.

The Impact of Service Standards Changes and Network Realignment

One foreseeable impact on clerk and mail handler costs was the reduction in the First-Class Mail service standards and the corresponding network realignment and expansion of the operating window.⁴⁹ As a result of these initiatives, the Postal Service expected significant savings in mail processing starting in FY 2015.⁵⁰ However, as shown in Figure 14, while there was a significant decline over the 10-year period, costs were relatively flat after FY 2015. In fact, clerk costs increased slightly between FYs 2015 and 2016. This raises questions as to why the bulk of the decline happened prior to the change in the First-Class Mail service standards and whether those changes in fact actually saved much money.⁵¹ According to the Postal Service, the reason for the reduced cost savings after 2015 is that the savings from the introduction of non-career positions in 2011 and 2013 were fully realized by FY 2015. It remains notable, however, that additional savings were not realized as a result of the decline in First-Class Mail Standards.

Figure 13: Clerks and Mail Handlers



46 U.S. Postal Service, *Glossary of Postal Terms, Publication 32*, July 2013, <http://about.usps.com/publications/pub32.pdf>, p. 39. Clerks are covered by the collective bargaining agreements with the American Postal Workers Union (APWU).

47 Ibid., p.123. Mail handlers are covered by the collective bargaining agreements with the National Postal Mail Handlers Union (NPMHU).

48 The number for clerks also includes a small number of nurses, as this is how the Postal Service reports the data.

49 On January 5, 2015, the Postal Service revised its First-Class Mail (FCM) service standards, eliminating the single-piece overnight FCM service standard and shifting some of the mail from two-day to three-day service standards. These revisions allowed the Postal Service to expand its mail processing operating window to process mail on fewer machines. U.S. Postal Service OIG, *Operational Window Change Savings*, Report No. NO-AR-19-001, October 15, 2018, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2018/NO-AR-19-001.pdf>, p. 1.

50 Ibid. The Postal Service had originally predicted a savings of \$805 million annually.

51 For a full discussion of the Postal Service's inability to achieve the forecasted cost savings, see USPS OIG, *Operational Window Change Savings*, Report No. NO-AR-19-01, October 15, 2018, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2018/NO-AR-19-001.pdf>. Appendix E shows these same costs broken down by function — window service and mail processing.

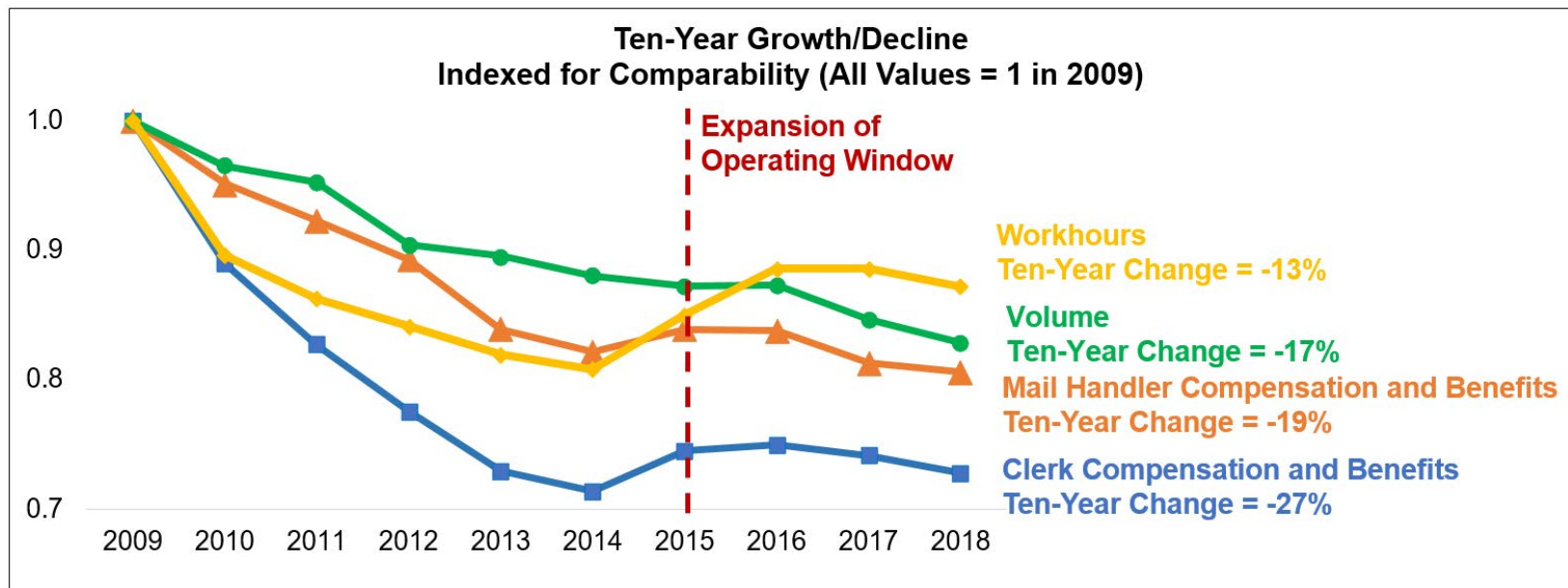
Even with the relatively flat trend after FY 2015, the overall decline in both clerk and mail handler costs was significant over the 10-year period. In fact, both the overall decline of inflation-adjusted clerk (27 percent) and mail handler costs (19 percent) exceeded the overall decline in mail volume (17 percent) in the same

10-year period.⁵² This suggests that prior to FY 2015, the Postal Service was successful in adjusting its mail processing operations in response to the decline in mail volume.

Figure 14: Annual Change in Clerk and Mail Handler Costs, Adjusted for Inflation (FYs 2009 – 2018)

THE DECLINE IN CLERK AND MAIL HANDLER COMPENSATION AND BENEFITS EXCEEDS THE DECLINE IN MAIL VOLUME

Between FYs 2009 and 2018, the overall decline in both mail handler and clerk inflation-adjusted compensation and benefits was greater than the overall decline in mail volume. However, not much decline happened after 2015, when the Postal Service implemented a reduction in First-Class Mail service standards that was expected to lead to significant cost savings in mail processing.



Source: OIG Analysis of Reallocated Trial Balances, FYs 2009 – 2018.

Clerk and Mail Handler Costs: Compensation Breakdown

This section shows the same breakdown of total compensation as shown for city and rural carriers but with one additional separation, Sunday premium pay. This is the 25-percent premium paid to workers who are scheduled to work on Sundays.⁵³

Figure 15 shows this analysis for clerks and mail handlers. Between FYs 2009 and 2018, straight-time compensation costs fell by 34 percent for clerks and by 29 percent for mail handlers. During the 10-year period, the Sunday premium pay also declined for both. In contrast, inflation-adjusted overtime costs essentially doubled, increasing 96 percent for clerks and 102 percent for mail

handlers.⁵⁴ This raises the question of why overtime costs have increased over the past 10 years.

Along with the reasons the Postal Service has provided (FY 2009 was a low year for overtime and parcel volume outstripped network capabilities), a recent audit looked into the increase in overtime in mail processing between FYs 2017 and 2018 and found the reasons for the increase in overtime to be: (1) implementation of a new employee scheduler; (2) lack of management oversight of unauthorized overtime, grievances, and employee availability; and (3) lack of performance measurements to effectively manage overtime.⁵⁵ While the implementation of the new employee scheduler would not account for increases in overtime before FY 2018, the other reasons likely account for at least some of the growth in overtime costs over the 10-year period.

53 U.S. Postal Service, *ELM Issue 46, Employee and Labor Relations Manual*, Section 434.34, https://about.usps.com/manuals/elm/html/elmc4_015.htm. Premium pay was not included for city and rural carriers due to its small size.

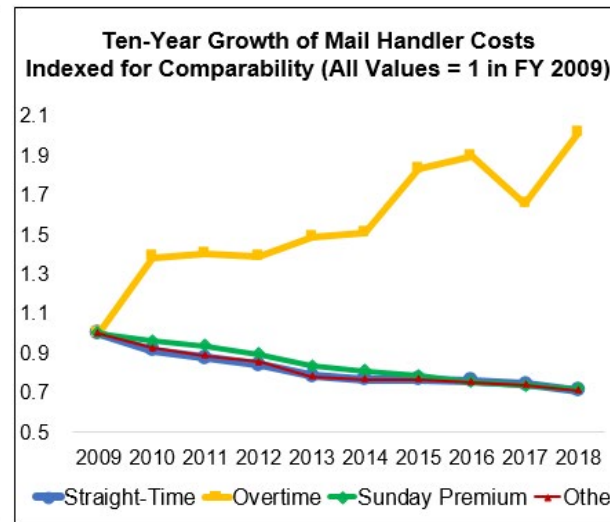
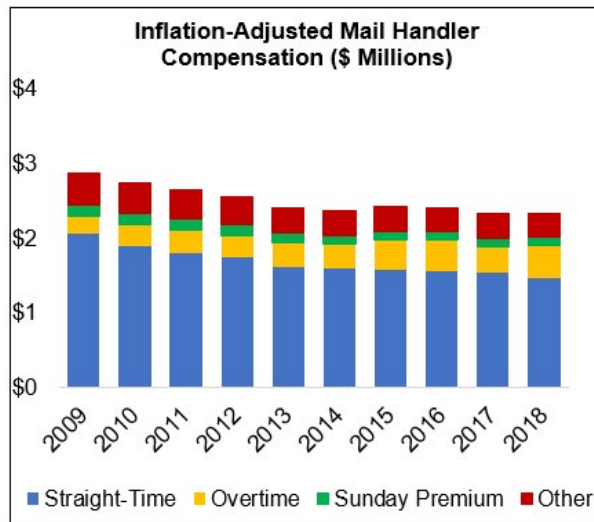
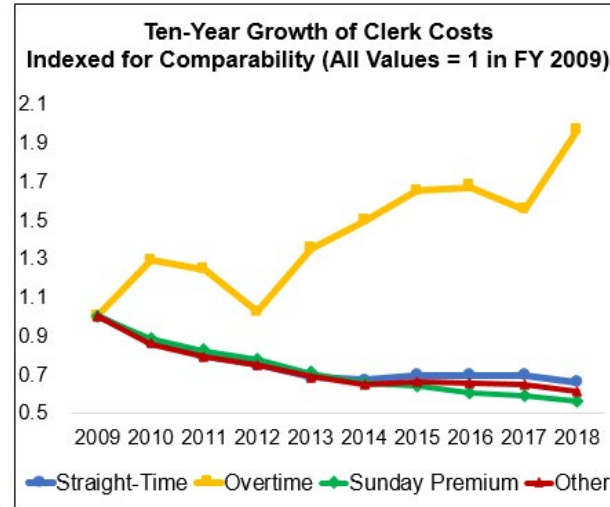
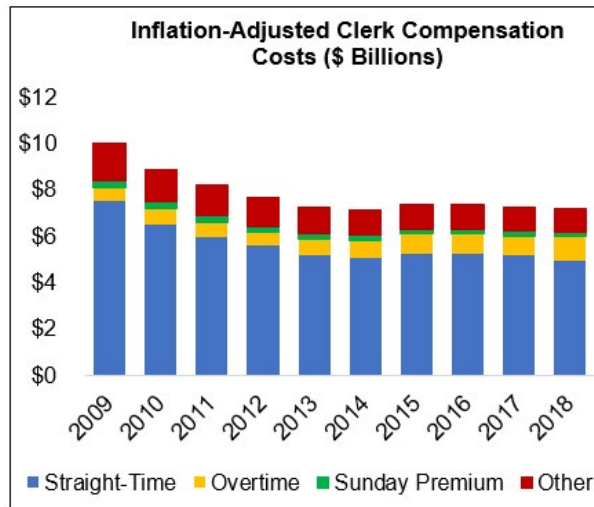
54 OIG Analysis of Postal Service's Reallocated Trial Balances, FYs 2009 to 2018. When comparing overtime costs between FYs 2008 and 2018, overtime costs increased 11 percent for clerks and 10 percent for mail handlers. When comparing FYs 2010 and 2018, overtime costs increased 52 percent for clerks and 46 percent for mail handlers.

55 U.S. Postal Service Office of Inspector General, *Mail Processing Overtime*, Report No. NO-AR-19-005, June 13, 2019 https://www.uspsig.gov/sites/default/files/document-library-files/2019/NO-AR-19-005_0.pdf, p. 4.

Figure 15: Clerk and Mail Handler Compensation Breakdown (FYs 2009 – 2018)

OVER THE PAST TEN YEARS, OVERTIME COSTS FOR CLERKS AND MAIL HANDLERS HAVE BEEN TRENDING UPWARDS, WHILE OTHER COSTS HAVE DECLINED

While the Postal Service has been able to reduce both straight-time costs and workhours for clerks and mail handlers, the increase in overtime suggests that there might be more the Postal Service can do to manage these costs.



Source: OIG Analysis of Reallocated Trial Balances, FYs 2009 – 2018.

In summary, the Postal Service's positive efforts to control its clerk and mail handlers' costs have been limited by the significant increase in overtime in both of these categories. As the analysis above has shown, the Postal Service has been able to adjust its mail processing operations both in terms of reductions in workhours as well as compensation and benefits of clerks and mail handlers. The same cannot be said about overtime costs, which have increased significantly between FYs 2009 and 2018.

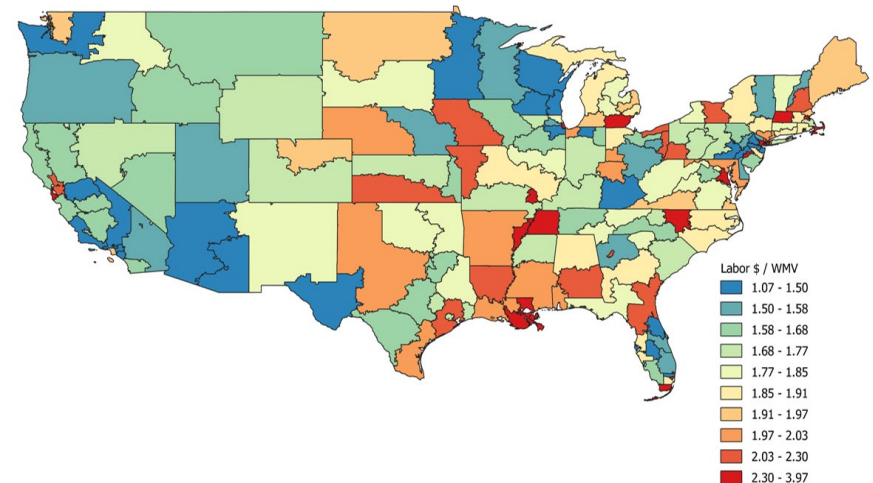
Labor Costs Vary by Region

An examination of how labor costs and the use of labor varies across the country raises some interesting questions. We worked with L.R. Christensen Associates to provide a snapshot of labor costs across the country for FY 2017, a year chosen due to the availability of data. The purpose of these maps is to provide recognition of how much labor costs vary by region. There are many reasons why costs are higher or lower in an area. As such, these maps can help identify areas where future study of best practices may be valuable. For related work on how much productivity varies by region, please see the OIG's recent white paper *Geographic Variation in Productivity*.⁵⁶

Figure 16: Labor Cost per Weighted Mail Volume (FY 2017)

THERE IS A WIDE VARIATION IN LABOR COSTS ACROSS THE COUNTRY

There is a wide variation in labor costs across the country – ranging from \$1.07 to \$3.97 per weighted mail volume (wmv).*



Source: L.R. Christensen Associates (FY 2017 data).

*Weighted mail volume reflects the mix of mail, and the relative work needed to process and deliver that mail, in each region. If we used unweighted mail volume to calculate the cost per mailpiece, the comparisons would be skewed due to some areas having more parcels than other areas.

⁵⁶ USPS OIG, *Geographic Variations in Productivity*, Report No. RISC-WP-19-006, August 19, 2019, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2019/RISC-WP-19-006.pdf>.

The first thing we looked at was the overall variation in labor costs by “weighted mail volume” by region, where weighted mail volume represents the mix of mail in each region.⁵⁷ As can be seen in Figure 16, there is large geographic variation in labor cost per weighted mailpiece. In some areas the labor cost per weighted mail volume has a range as low as \$1.07 to \$1.50 per weighted mail volume. In other regions, the range of labor costs is much higher — \$2.30 to \$3.97 per weighted mail volume.

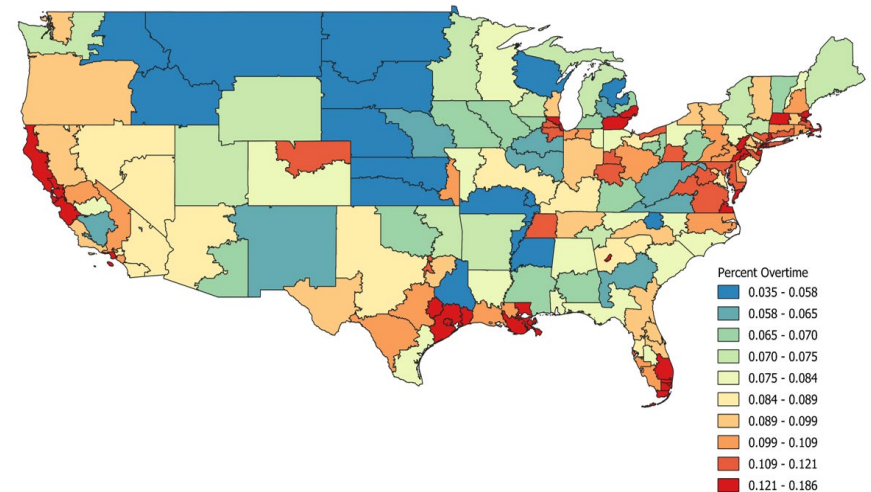
There are likely many reasons for this variation. For instance, areas with a large mail processing facility will have higher costs per mail piece than areas without a large facility. This is because areas with large postal facilities will have more employees working in that area and therefore have higher labor costs. Mail volume, on the other hand, is measured by the mail pieces that originate and destinate within that area, and therefore, will not necessarily be affected by the presence of a large mail facility.

We specifically looked at two factors to see if they also vary significantly by region. The first factor we looked at was the use of overtime. Figure 17 displays the amount of overtime used in each region, represented as the number of overtime hours divided by total workhours in FY 2017.⁵⁸

Figure 17: Overtime Use by Region (FY 2017)

USE OF OVERTIME VARIES WIDELY ACROSS THE COUNTRY

Overtime usage also varies by geographic region — ranging from 3.5 percent to 18.6 percent of total labor hours.*



Source: L.R. Christensen Associates (FY 2017 data).

*As measured by the number of overtime hours divided by the total number of labor hours.

⁵⁷ The regions are defined by the Postal Service’s Origin-Destination Information System (ODIS) and are collections of 3-digit ZIP Code areas. These regions were used due to the availability of data. The weighted mail volume estimates are derived from a measurement used to develop total factor productivity (TFP) and are designed to consider the workload the mail in a specific area will require. This includes both shape and whether the mail is originating or destinating as this will affect the workload involved with handling the mail.

⁵⁸ Please note that this may not fully express the true cost of overtime, as different workers earn different amounts.

As shown in Figure 17, overtime as a fraction of total labor hours varies significantly. For example, in the north central region of the country, overtime hours are 3.5 to 5.8 percent of total work hours. However, in other areas of the country, such as South Florida, overtime hours are 12.1 to 18.6 percent of total work hours. The top two areas of the country with the highest overtime use is Brooklyn, New York and South Florida.⁵⁹ The two areas of the country with the lowest overtime use is North Platte, Nebraska and Springfield, Missouri.⁶⁰

In areas where it may be difficult to hire or there is a high turnover of employees, it may be necessary to use overtime to keep postal facilities fully staffed.

It should be noted that this variation in the use of overtime may reflect more than how labor costs are managed. For example, in areas where it may be difficult to hire or there is a high turnover of employees, it may be necessary to use overtime to keep postal facilities fully staffed.

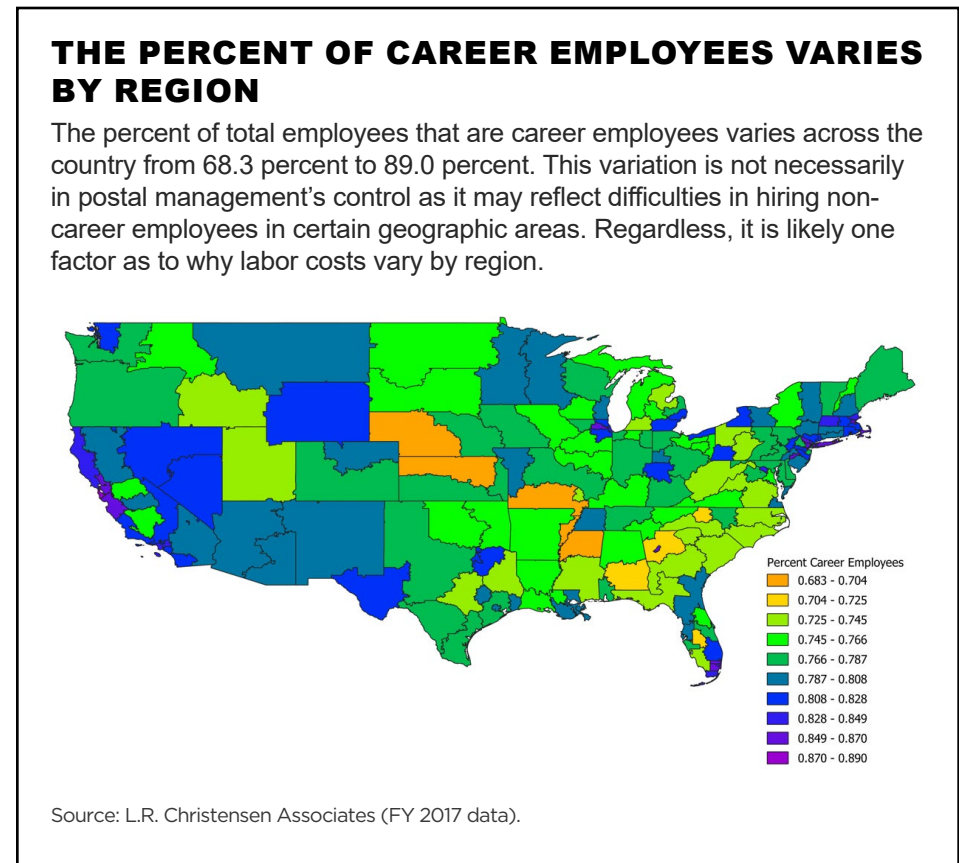
The second factor we looked at that could lead to variations in costs is the use of career employees (versus non-career). A higher fraction of career employees may mean that postal managers have not been able to fully utilize the lower-cost non-career employees. A higher fraction of career employees is not necessarily a reflection of what postal management would choose to use. In some cases, the lower non-career hourly wage may be too low to be competitive, and the Postal Service may have trouble hiring and retaining employees for these positions.

In some cases, the lower non-career hourly wage may be too low to be competitive, and the Postal Service may have trouble hiring and retaining employees for these positions.

Figure 18 displays the ratio of career employees to the total number of employees. This data represents the total active number of employees from the Postal Service's National Payroll Summary.⁶¹ In some areas of the country, such as San Francisco, career employees account for 87 to 89 percent of

the workforce. In other areas of the country (for instance, in the middle of the country), career employees account for a lower percentage of the workforce — 68.3 to 73.6 percent. This likely correlates with the fact that the middle of the country has a relatively low cost of living. Given that the Postal Service's wages do not vary across the country, wages for non-career employees will be relatively more attractive in low cost-of-living areas. Therefore, it is likely easier for the Postal Service to fill non-career vacancies in areas of the country with a lower cost of living.

Figure 18: Fraction of Career Employees by Region (FY 2017)



⁵⁹ South Florida is the name for a collection of 3-digit ZIP Codes in southern Florida.
⁶⁰ See Appendix F for a list of top and bottom ten ODIS areas for use of overtime.
⁶¹ The actual number of employees varies throughout the year, as people leave, and others get hired. What is shown on this map is one snapshot in time.

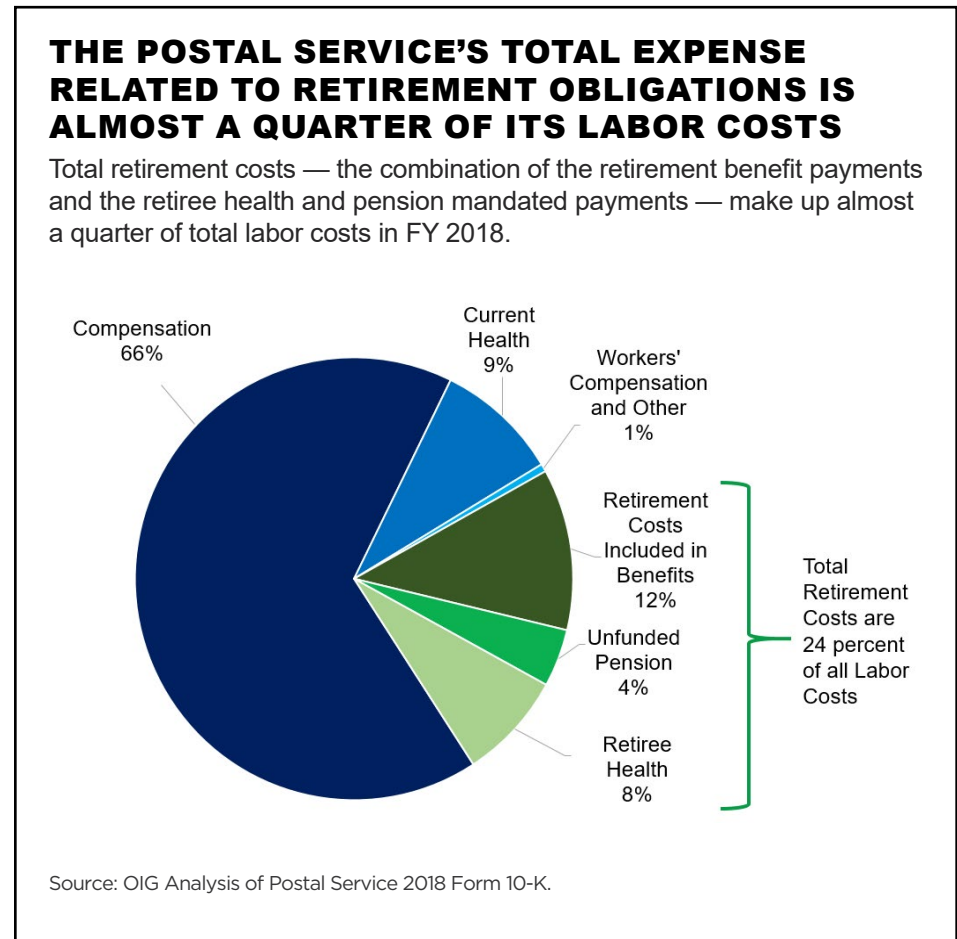
None of these three maps tell the full story. Instead, when looked at as a whole, they raise questions that may warrant further study. For example, the coastal area around San Francisco has a relatively high fraction of career employees (Figure 18) and has one of the highest usages of overtime (Figure 17). This seems logical, since having relatively fewer flexible non-career employees may result in a higher use of overtime. However, it also seems logical that this same geographic area would have relatively higher labor costs, but for the most part it does not. As shown in Figure 16, while there is one small area of high costs shown in red (likely surrounding the San Francisco NDC), the area directly below that has low to medium labor costs per weighted mail piece. Hence, there appears to be more behind the variations in labor costs than the differences in overtime and the proportion of career employees. Overall, a more in-depth analysis of cost variation by region could possibly lead to lessons learned and best practices that could be applied to the higher-cost areas.

Retirement-Related Costs

Retirement costs account for a significant portion of the Postal Service’s labor costs. By law, the Postal Service participates in the two federal pension programs — the Civil Service Retirement System (CSRS) and Federal Retirement System (FERS).⁶² In addition, it is legally obligated to provide health benefits to its retirees through the Federal Employees Health Benefit (FEHB) Program.⁶³ Furthermore, postal employees may also participate in the federally-run Thrift Savings Plan (TSP).⁶⁴

As shown in Figure 19, total retirement costs account for almost a quarter of the Postal Service’s labor costs in FY 2018. However, the Postal Service records its retirement-related costs in several different places. About half of them are reported as part of the compensation and benefits cost discussed earlier in this paper. These include the payments needed to cover the cost of its current employees participating in FERS.⁶⁵ These costs alone account for 12 percent of total labor costs in FY 2018.

Figure 19: Total Retirement Costs



In addition to the retirement-related costs incurred as part of compensation and benefits, the Postal Service incurs two other types of retirement-related payments: (1) amortization payments designed to fully fund the pension

62 U.S. Postal Service, *2018 Report on Form 10K*, November 14, 2018, <https://about.usps.com/what/financials/10k-reports/fy2018.pdf>, p. 6.

63 Ibid, p. 34.

64 Ibid, p. 27.

65 These include FERS normal costs and the Postal Service’s contribution to the Thrift Savings Plan and Social Security. By law, the Postal Service does not make these payments for employees participating in CSRS. USPS, *2018 Report on Form 10-K*, pp. 6 and 27.

obligations, and (2) payments related to retiree health benefits. These account for another 12 percent of labor costs.

Unfunded Pension Liability and Retiree Health Benefit Payments

The timing and size of both the unfunded pension amortization payments and the retiree health benefit payments are dictated by law.⁶⁶ For the unfunded pension payments, the Postal Service is required to make these payments, if and only if, the Office of Personnel Management projects there are insufficient funds set aside to cover the Postal Service pension obligations.⁶⁷ For many years both the FERS and CSRS obligations were fully funded, and therefore no unfunded pension payments were needed. The payments started up again in FY 2014 for FERS and in 2017 for CSRS.⁶⁸

By law, the retiree health benefit payments changed in both the size and structure over the past ten years.⁶⁹ Between FYs 2007 and 2016, the Postal Accountability and Enhancement Act (PAEA) required the Postal Service to make two types of payments: (1) a hardcoded “prefunding” payment into the Postal Service Retiree Health Benefit Fund (PSRHBF), and (2) a payment to cover the retiree-related health benefit premiums incurred each year. In FY 2017, however, PAEA dictated that these requirements change. Since 2017, the Postal Service is no longer responsible for directly making the retiree-related health benefit premium payments. Instead these premium payments are paid out of the PSRHBF, saving the Postal Service \$2 to \$3 billion a year. In addition, instead of a predetermined prefunding payment, the Postal Service is required to make two types of payments into the PSRHBF that are calculated by OPM each year. These are: (1) the normal costs incurred each year, and (2) an amortization amount designed to address the unfunded liability.⁷⁰

66 See Appendix G for a more detailed description of these payments.

67 FY 2018 10K, p. 32. In addition, due to the fact it was over-funded, the Postal Accountability and Enhancement Act suspended all payments to CSRS until 2017.

68 See Appendix G for a full discussion of FERS and CSRS amortization payments.

69 See Appendix G for a full discussion of retiree health obligation payments.

70 USPS, 2018 Report on Form 10-K, p. 6.

71 See Appendix G for a full discussion of the missed payments.

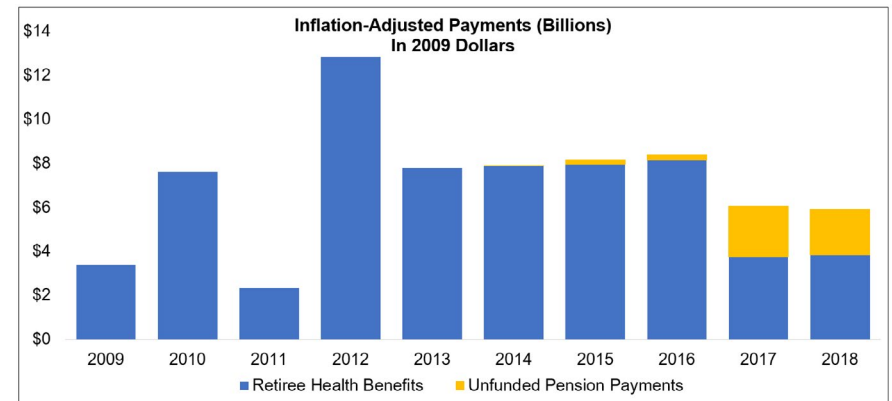
72 Ibid.

73 USPS, 2015 Report on Form 10-K, p 22 and USPS, 2018 Report on Form 10-K, p. 30.

Figure 20: Retiree Health Benefits and Unfunded Pension Payments

RETIREMENT-RELATED PAYMENTS VARY FROM YEAR TO YEAR

The retiree health benefit and unfunded pension payments have varied over the past 10 years. While these are recorded as expenses each year, the Postal Service has not made \$48.2 billion of these payments.



Source: OIG Analysis of USPS Form 10-Ks, FYs 2009 – 2018.

As can be seen in Figure 20, the total of these payments is significant and varies from year to year. It should be noted that while these payments are recorded as expenses in the year they are incurred, the Postal Service has not made a significant portion of them.⁷¹ It has missed \$5.6 billion worth of pension payments and \$42.6 billion worth of retiree health benefit payments — a total of \$48.2 billion.⁷² The Postal Service has stated that it did not make these payments in order to preserve liquidity and maintain the ability to fulfill the universal service obligation.⁷³ While there is no short-term drawback to missing these payments, in

the long-term, these missed payments could eventually harm the Postal Service's ability to fulfill its pension and retiree-health benefit obligations.

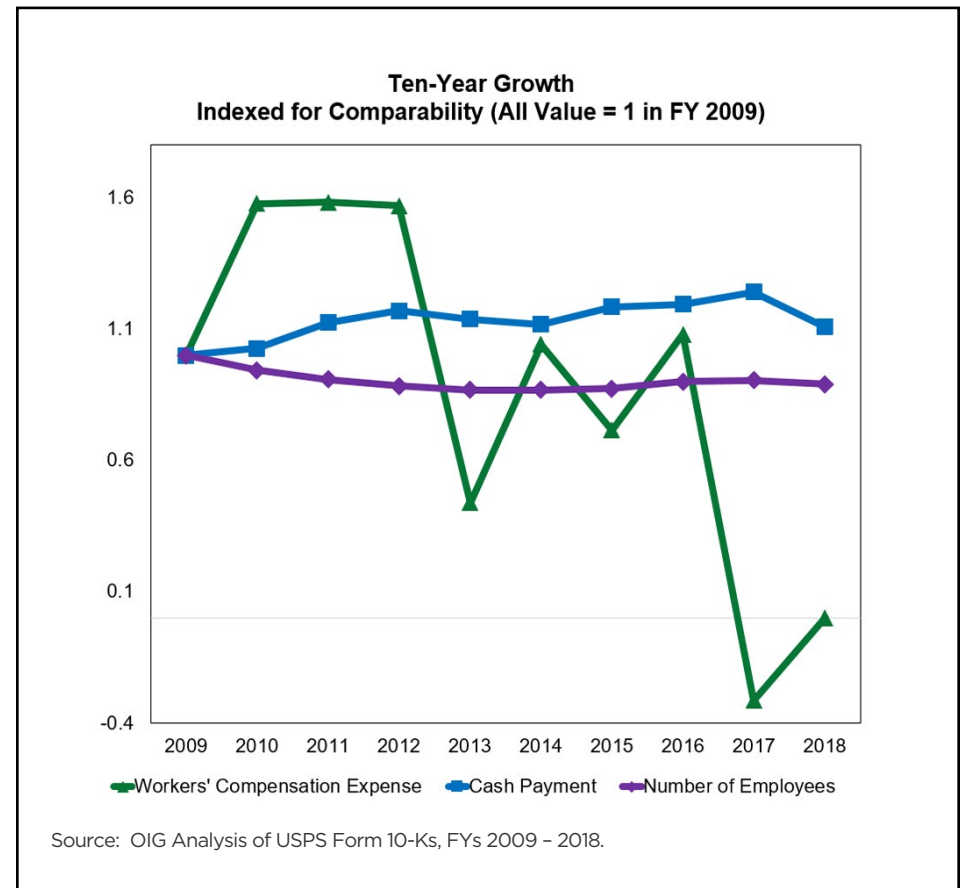
Workers' Compensation

The final category of labor costs is workers' compensation. Workers' compensation is a small but significant part of labor costs. Postal Service employees are covered under the Federal Employees' Compensation Act (FECA).⁷⁴ The U.S. Department of Labor (DOL) administers FECA and makes all decisions regarding the eligibility of injured workers to receive workers' compensation benefits. DOL provides direct compensation to medical providers, claimants, and beneficiaries. The Postal Service then reimburses DOL for all workers' compensation claims in addition to paying an administrative fee.⁷⁵

It is worth noting that the volatility of the reported workers' compensation expense does not reflect the trend of the cash payments made by DOL. Therefore, this volatility does not reflect the true expense incurred by the Postal Service. As shown in Figure 21, the inflation-adjusted actual cash payments show a relatively stable growth over the past 10 years. In contrast, the workers' compensation expense fluctuates from year to year and was even negative in FY 2017. This volatility is caused by two items that are included in the calculation of the compensation expense: (1) the impact of discount rate changes and (2) actuarial revaluation of existing cases.⁷⁶

While the overall cost associated with workers' compensation is small relative to the other categories of labor costs, it is noteworthy as the cash payments have increased by 11 percent over the past ten years.⁷⁷ This happened despite an overall 11 percent decline in the number of employees during the same period.⁷⁸ It may be worth further exploration as to why workers' compensation is increasing. Especially since the number of grievances has been trending

Figure 21: Workers' Compensation Expense, Cash Payment and Number of Employees



⁷⁴ USPS, 2018 Report on Form 10-K, pp. 7

⁷⁵ Ibid., pp. 7, 37 and 38. Between FYs 2009 and 2018, the inflation-adjusted administration fee that the Postal Service pays to the Department of Labor has ranged from \$55 to \$132 million. However, the \$132 million fee in FY 2017 appears to be an anomaly, as the next highest fee in the 10-year period is \$69 million, which was made in FY 2018.

⁷⁶ Ibid., p. 38.

⁷⁷ OIG calculation using Postal Service Annual Report Data and Bureau of Labor Statistics CPI Data, FYs 2009 – 2018.

⁷⁸ OIG calculation using Postal Service's FYs 2008 and 2019 Form 10-Ks.

upwards during this 10-year period.⁷⁹ The combination of the increase in workers' compensation and the increase in the number of grievances suggests that there are other factors which warrant further examination.

Conclusion

As mail volume continues to decline and the number of delivery points continues to grow, the Postal Service will need to better manage its labor costs to continue to provide efficient universal service. Given that labor costs account for 76 percent of total costs, reducing and better managing them will have to be an important part of any cost-saving effort.

While the Postal Service has been successful at reducing total compensation and benefit costs over the past ten years, since FY 2014, further cost cutting has been mostly flat. Our research indicates that there are additional opportunities for the Postal Service to better manage its labor costs. Overtime costs have been increasing over the past 10 years, especially for rural carriers. In addition, when we looked at a snapshot of time, we found significant variation in labor costs and factors that influence labor costs throughout the nation. Given the very high dollar amounts that are spent on labor costs to collect, sort, move, and deliver the mail, even small changes could have significant positive effects and help the Postal Service continue to provide universal service at the lowest possible cost.

⁷⁹ See [Appendix H](#) for a brief discussion on the cost of grievances.

Appendices

Click on the appendix title below to navigate to the section content.

- Appendix A: Total Labor Costs, FYs 2009 – 2018..... 29
- Appendix B: Breakdown of Compensation and Benefits..... 30
- Appendix C: Number of Postal Service Employees 31
- Appendix D: New Non-Career Employee Positions 33
- Appendix E: Mail Processing and Window Service Costs 34
- Appendix F: Overtime Use 35
- Appendix G: Retirement Costs 36
 - Unfunded Retirement Benefits..... 36
 - Funding Health Benefits for Future Retirees..... 37
- Appendix H: Grievances 39
- Appendix I: Management’s Comments 40

Appendix A: Total Labor Costs, FYs 2009 – 2018

Table 1: Total Labor Costs FYs 2009 – FY 2018 (\$ Millions)

	Compensation and Benefits						Unfunded Pension Liabilities		Retiree Health (PSRHBF)			Workers' Compensation	Total Labor
	Compensation	Retirement			Current Employee Health	Other	CSRS	FERS	Amortization Payment	Fixed PAEA Payment	Normal Cost		
		FERS Normal	Social Security	TSP									
2009	\$39,208	\$2,962	\$1,882	\$1,073	\$5,294	\$512	\$0	\$0	\$0	\$1,400	\$0	\$2,223	\$56,544
2010	\$37,671	\$2,904	\$1,856	\$1,049	\$5,141	\$414	\$0	\$0	\$0	\$5,500	\$0	\$3,566	\$60,348
2011	\$36,821	\$2,983	\$1,856	\$1,040	\$5,222	\$388	\$0	\$0	\$0	\$0	\$0	\$3,672	\$54,423
2012	\$36,279	\$2,980	\$1,853	\$1,021	\$5,187	\$369	\$0	\$0	\$0	\$11,100	\$0	\$3,729	\$65,147
2013	\$35,639	\$2,891	\$1,860	\$987	\$4,951	\$380	\$0	\$0	\$0	\$5,600	\$0	\$1,061	\$56,219
2014	\$35,113	\$2,888	\$1,881	\$989	\$4,804	\$325	\$0	\$7	\$0	\$5,700	\$0	\$2,554	\$57,246
2015	\$35,931	\$3,258	\$1,956	\$1,025	\$4,774	\$334	\$0	\$241	\$0	\$5,700	\$0	\$1,760	\$58,090
2016	\$36,634	\$3,436	\$2,009	\$1,064	\$4,972	\$326	\$0	\$248	\$0	\$5,800	\$0	\$2,682	\$60,476
2017	\$37,026	\$3,474	\$2,039	\$1,091	\$5,163	\$315	\$1,741	\$917	\$955	\$0	\$3,305	(\$797)	\$55,229
2018	\$37,795	\$3,479	\$2,128	\$1,113	\$5,169	\$320	\$1,440	\$958	\$815	\$0	\$3,666	\$4	\$56,887

Source: OIG Analysis of USPS Form 10-Ks, FYs 2009 – 2018.

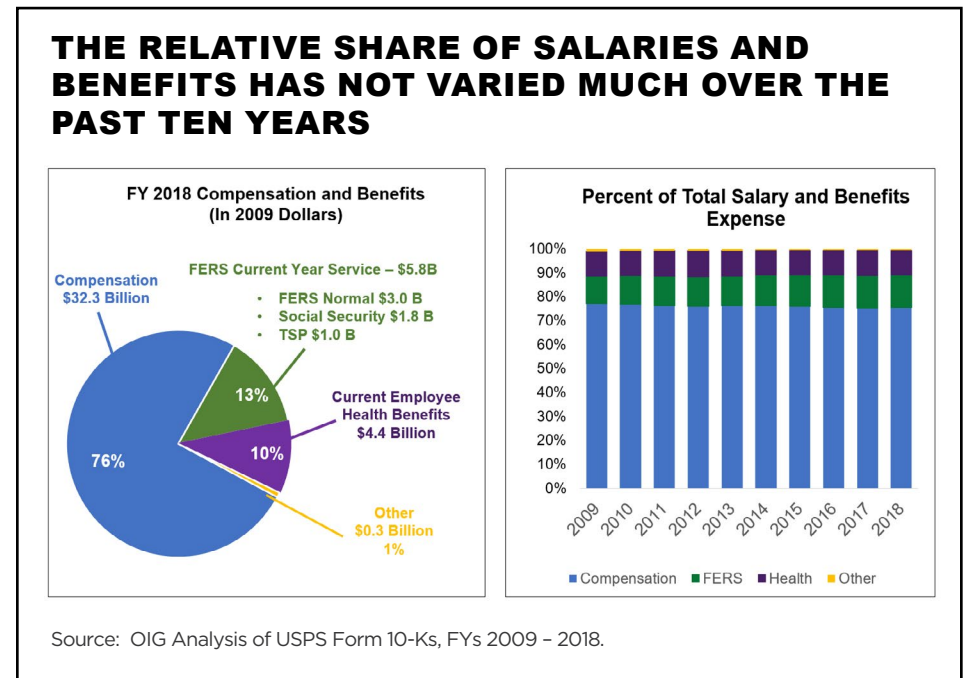
Appendix B: Breakdown of Compensation and Benefits

Compensation and benefits are by far the largest part of the Postal Service's labor costs. In FY 2018, compensation accounted for 76 percent of the compensation and benefits costs. Benefits account for the remaining 24 percent and include the following.

- FERS employees' current year of service costs – These include the FERS normal costs, which are the contributions the Postal Service makes related to FERS participants in the current year. It also includes the Postal Service's contribution into the Thrift Savings Plan (TSP) and Social Security.⁸⁰
- Health care costs for current employees – Postal Service's contributions to the Federal Employees Health Benefits (FEHB) program and the non-career employee health benefits plan, including the employer portion of Medicare taxes.⁸¹
- Other – This category includes other things such as the costs of grievances.⁸²

As can be seen in Figure 22, the relative share of compensation and benefits has not changed much over the past 10 years. Between FYs 2009 and 2018, compensation accounted for 75 to 77 percent of total compensation and benefits. FERS employees' current year of service costs accounted for 12 to 13 percent, and health care costs for current employees accounted for 10 to 11 percent.

Figure 22: Compensation and Benefits



⁸⁰ USPS, 2018 Report on Form 10-K, p. 28.

⁸¹ Ibid, p. 29.

⁸² Ibid, p. 27. Other costs were \$320 million in FY 2018 which is 0.64 percent of the total compensation and benefits cost of \$50 billion.

Appendix C: Number of Postal Service Employees

Table 2: Changes in Number of Postal Service Employees Between FYs 2009 and 2018

Career Employees	2009	2018	Difference
HQ and Related			
Headquarters	2,811	3,252	443
HQ Field Support	4,455	3,491	(964)
Inspection Service – Field	2,617	2,439	(228)
Inspector General	1,155	1,029	(126)
Total HQ and Related	11,038	10,163	(875)
Field Offices			
Area Offices	1,047	899	(148)
Postmasters	23,672	13,742	(9,930)
Supervisors and Managers	28,812	25,590	(3,222)
Professional Administration and Technical Personnel	6,460	4,672	(1,788)
Clerks/Nurses	177,842	121,622	(56,220)
Mail Handlers	52,954	37,535	(15,419)
City Delivery Carriers	200,658	168,199	(32,459)
Motor Vehicle Operators	8,113	8,411	298
Rural Delivery Carriers	67,749	70,852	3,103
Building and Maintenance Personnel	39,531	30,219	(9,312)
Vehicle Maintenance	5,252	5,253	1
Total Field	612,090	486,994	(125,096)
Total Career	623,128	497,157	(125,971)

Non-Career Employees	2009	2018	Difference
Casuals	4,271	879	(3,392)
Postal Support Employees	0	26,386	26,386
Nonbargaining Temporary	1,659	285	(1,374)
Rural Part-Time Subs/RCA/RCR/AUX	54,529	59,183	4,654
Postmaster Relief and Leave Replacements	11,477	2,168	(9,309)
City Carrier Assistants	0	42,115	42,115
Mail Handler Assistants	0	6,274	6,274
Transitional Employees	17,018	0	(17,018)
Total Non-Career	88,954	137,290	48,336
Total Employees	712,082	634,447	(77,635)

Source: OIG Analysis of USPS Annual Reports, FYs 2009 – 2018.

Appendix D: New Non-Career Employee Positions

Since 2011 the Postal Service has introduced several new non-career labor categories.

- In FY 2011, the Postal Service added a postal support employee position (PSE) under its agreement with the American Postal Workers Union (APWU).⁸³ This position was originally allowed to be used for the maintenance, motor vehicle, and clerk crafts. However, in the most recent agreement, the position was eliminated for use in the maintenance crafts, and significantly limited in the motor vehicle craft. Existing PSEs in those crafts were converted into full-time employees.⁸⁴
- In FY 2013, the Postal Service eliminated the use of a “transitional employee” position and added two new non-career positions.⁸⁵ The first is in the city carrier craft and is called city carrier assistant (CCA). The second is within the mail handler craft and is called mail handler assistant (MHA).⁸⁶
- In FY 2012, the Postal Service lowered the starting wage of new rural carrier associates (RCA), a non-career position that provides delivery on certain routes, from \$19.45 to \$15.56 per hour.⁸⁷ In FY 2015, the Postal Service introduced the position of assistant rural carriers (ARC). These positions are used to deliver packages on Sundays and federal holidays on rural routes and are paid at the same rate as new RCAs.⁸⁸

There are limits on how much the Postal Service can use these new positions, as dictated by its collective bargaining agreements with employee unions. The current limitations set by the union agreements are as follows:

- Postal support employees are limited to 20 percent of full-time staff in both the mail processing and retail customer service functions, with a stricter limit of 10 percent on window service in level 22 and above offices.⁸⁹
- Mail handler assistants may not exceed 18.5 percent of total career mail handlers in the district and 23.5 percent in the installation.⁹⁰
- City carrier assistants may not exceed 18 percent of the total number of full-time city carriers in that district, with some flexibility to hire up to 8,000 more to meet fundamental changes in the business environment.⁹¹ There are some exceptions to this rule outlined in memorandums of understanding between the Postal Service and NALC.
- Assistant rural carriers (ARCs) have no limits in terms of number or percent of career employees, but the agreement states that offices should hire only the number of ARCs needed to complete Sunday and holiday parcel delivery.⁹² There is no limit on the number of rural carrier associates, who serve as leave replacements for career employees.

83 U.S. Congressional Research Service, *U.S. Postal Service Workforce Size and Employment Categories, FY1995-FY2014*, by Kathryn A. Francis, Report No. RS22864, October 21, 2015, accessed at <https://fas.org/sgp/crs/misc/RS22864.pdf>, p. 5.

84 “Collective Bargaining Agreement between American Postal Workers Union, AFL-CIO and U.S. Postal Service, May 21, 2015 through September 20, 2018”, https://apwu.org/sites/apwu/files/APWU_CBA_2015-2018.pdf, p. 17.

85 A transitional employee is a non-career bargaining unit employee paid an hourly rate, hired and used for specific assignments according to the terms of the employee’s respective collective bargaining agreement. U.S. Postal Service, *Glossary of Postal Terms, Publication 32*, July 2013, <http://about.usps.com/publications/pub32.pdf>, p. 225.

86 Congressional Research Service, *U.S. Postal Service Workforce Size and Employment Categories, FY1995-FY2014*, p. 5.

87 “Agreement between the United States Postal Service and the National Rural Letter Carriers’ Association, 2015-2018”, p. 173, and USPS OIG, *Non-Career Employee Turnover*, Report No. HR-AR-17-002, <https://www.uspsoidg.gov/sites/default/files/document-library-files/2016/HR-AR-17-002.pdf>, December 20, 2016, p. 17.

88 “Agreement between the United States Postal Service and the National Rural Letter Carriers’ Association, 2015-2018,” <https://www.nrlca.org/Documents/WebContent/EditorDocuments/2015-2018%20National%20Agreement.pdf>, p. 158. In addition, this past holiday season the Postal Service entered into an agreement with NRLCA to expand the use of ARCs to weekdays to help handle the high parcel volume. <https://www.ruralinfo.net/usps-and-nrlca-sign-mou-expanding-use-of-arcs-during-2018-peak-season.html>

89 “Collective Bargaining Agreement between American Postal Workers Union, AFL-CIO and U.S. Postal Service, May 21, 2015 September 20-2018”, https://apwu.org/sites/apwu/files/APWU_CBA_2015-2018.pdf, p. 249.

90 “Agreement between United States Postal Service and National Postal Mail Handlers Union, A Division of the Laborers’ International Union of North America, AFL-CIO, May 21, 2016 – September 20, 2019,” <https://www.npmhu.org/resources/agreement>, pp. 14 and 135. The agreement does recognize that there may be situations of limited duration that may require breaching this limit. This can only be done in concurrence with the parties at both the local and national levels.

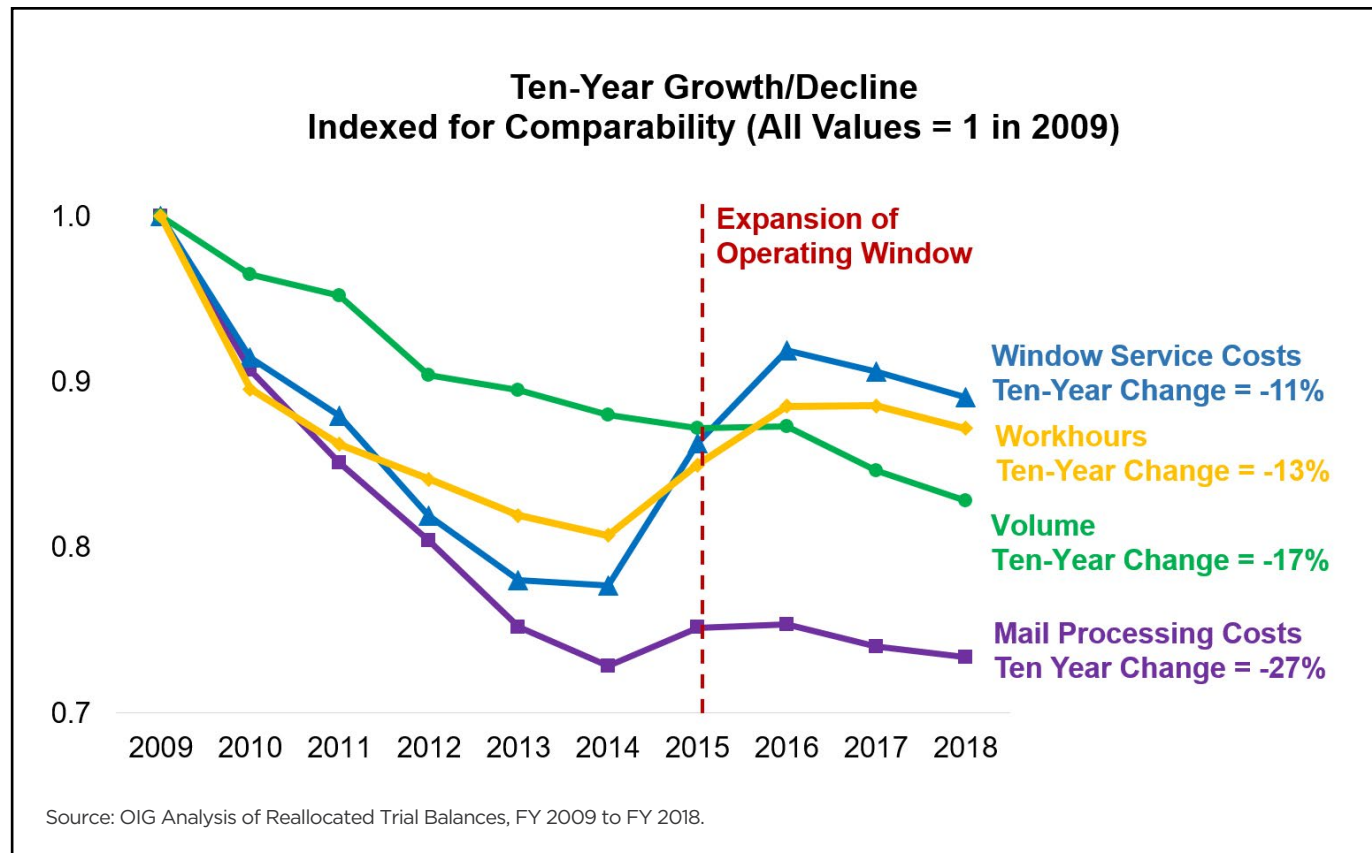
91 The “up to 8,000 additional CSAs” cannot exceed 8 percent of the total full-time career positions in that District. “National Association of Letter Carriers National Agreement, 2016-2019,” <https://www.nalc.org/workplace-issues/resources/agreement/National-Agreement-2016-2019.pdf>, pp. 15-16.

92 Memorandum on Assistant Rural Carrier (ARC) Implementation Guidelines.

Appendix E: Mail Processing and Window Service Costs

In the body of this report, we discuss mail processing and window service costs by looking at the costs of the two types of employees: clerks and mail handlers. In this appendix, we show similar breakdowns for costs by postal function: window service and mail processing.⁹³ While the story is similar, it does show that more of the cost savings come from the mail processing function (which includes both clerks and mail handlers). Figure 23 shows the inflation-adjusted costs for mail processing and window service. The basic trend for both is similar, with an overall decline but relatively flat after FY 2015. However, while mail processing costs declined more than the decline in overall mail volume, window service costs did not.

Figure 23: Window Service and Mail Processing (FYs 2009 – 2018)



⁹³ The total costs will not match those shown for clerks and mail handlers, as there is a third category “Administrative and Support Activities.” This was not included due to its small size.

Appendix F: Overtime Use

Table 3: Areas with Lowest and Greatest Overtime Use (FY 2017)

ODIS Areas that have the Lowest Overtime Use		ODIS Areas that have the Greatest Overtime Use	
1	North Platte, NE 3.5%	1	Brooklyn, NY 18.6%
2	Springfield, MO 3.5%	2	South Florida, FL 17.0%
3	Kansas City, KS (district NE) 3.6%	3	San Francisco, CA 16.9%
4	Tyler, TX 3.7%	4	Bronx, NY 15.9%
5	Sioux Falls, SD 3.9%	5	Philadelphia, PA 15.7%
6	Memphis, TN (district MS) 4.0%	6	Royal Oak, MI 15.6%
7	Wichita, KS (district NE) 4.1%	7	Ft. Lauderdale, FL 15.2%
8	St. Louis, MO 4.2%	8	Miami, FL 15.1%
9	Saginaw, MI 4.08%	9	Atlanta, GA 15.1%
10	Charlotte, NC 4.9%	10	San Jose, CA 15.0%

Notes: ODIS areas are generally referred to using three-digit ZIP Codes. They are often named after the largest city in their territory.
Source: L.R. Christensen Associates.

Appendix G: Retirement Costs

Unfunded Retirement Benefits

The Postal Service is obligated by law to participate in the two U.S. government pension systems — the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The Postal Service has no control over the costs associated with these pension systems, as they are run by the Office of Personnel Management (OPM).⁹⁴ The Postal Service is responsible for making payments to cover the cost of its current employees participating in FERS. This includes the FERS normal cost as well as the Postal Service’s contribution to TSP and Social Security. These costs are reported as a part of compensation and benefits in the Postal Service’s annual reports.

In some years, the Postal Service is required to make an additional payment to cover the costs of its FERS obligation. This payment occurs when OPM projects that the Postal Service has not put enough money aside to cover the costs of its FERS-related liabilities.⁹⁵ When this occurs, OPM calculates an amortization payment designed to fully fund the liabilities over 30 years.⁹⁶ Between 1992 and 2012, OPM determined that the Postal Service’s FERS liability was overfunded, and therefore the Postal Service was not obligated to make any amortization payments.⁹⁷ In FY 2014, the requirement to make amortization payments started again (Table 4).⁹⁸ To date, the Postal Service has not made these payments — first citing the need to wait until OPM finished reviewing the use of postal-specific assumptions in its calculation of liabilities, and later stating that the missed payments were needed to preserve liquidity and maintain the ability to fulfill the universal service obligation.⁹⁹ As shown in Table 4, as of FY 2018, these missed payments totaled \$2.4 billion.

The Postal Service has a similar amortization payment requirement for CSRS. At the time the Postal Accountability and Enhancement Act (PAEA) was enacted,

the Postal Service had put aside more assets than needed to cover its share of CSRS liabilities. As a result, PAEA suspended all of the Postal Service’s payments into the CSRS fund until FY 2017.¹⁰⁰ In FY 2017, OPM revalued the CSRS unfunded liability and determined that the Postal Service had to make substantial amortization payments — \$1.7 billion in FY 2017 and \$1.4 billion in FY 2018.¹⁰¹ To date, the Postal Service has not made these payments, citing that it cannot make them without risking its liquidity and ability to provide universal service.¹⁰² The Postal Service reports these missed payments as current liabilities in its balance sheets.¹⁰³ As of FY 2018, the missed CSRS payments totaled \$3.2 billion. Together, the combined missed payments for FERS and CSRS total \$5.5 billion.

Table 4: USPS Has Missed \$5.5 Billion in Amortization Payments for Unfunded Pension Liabilities

Amortization Payments for Unfunded Pension Liabilities (\$ Millions)			
	FERS	CSRS	Total
2014	\$7	n/a	\$7
2015	\$241	n/a	\$241
2016	\$248	n/a	\$248
2017	\$917	\$1,741	\$2,658
2018	\$958	\$1,440	\$2,398
Total Missed Payments	\$2,371	\$3,181	\$5,552

Source: OIG Analysis of USPS Form 10-Ks, FY 2014 to FY 2018.

⁹⁴ USPS, 2018 Report on Form 10-K, p. 6.

⁹⁵ Ibid., p. 32.

⁹⁶ Ibid.

⁹⁷ USPS, 2014 Report on Form 10-K, p. 23.

⁹⁸ Ibid.

⁹⁹ USPS, 2015 Report on Form 10-K, p 22 and USPS, 2018 Report on Form 10-K, p. 30.

¹⁰⁰ USPS, 2014 Report on Form 10-K, p. 59.

¹⁰¹ USPS, 2018 Report on Form 10-K, p. 32.

¹⁰² Ibid., p. 30.

¹⁰³ Ibid., p 9.

Funding Health Benefits for Future Retirees

PAEA established a requirement for the Postal Service to prefund its retiree health obligation, including obligations for both current retirees and employees who will likely retire from the Postal Service in the future. To do this, PAEA established a new fund called the Postal Service Retiree Health Benefits Fund (PSRHBF) and required the Postal Service to make payments into the fund.¹⁰⁴ These payments were in addition to the already existing premium payments made each year to cover the cost of current retirees' health benefits.¹⁰⁵

From FYs 2006 to 2016, the prefunding payments were fixed annual amounts set by law, but later adjusted by Congress at the request of the Postal Service.¹⁰⁶ Table 5 shows the Congressionally-adjusted requirements. While the Postal Service made these payments for a few years, it made its last payment in FY 2010.¹⁰⁷ In total, the Postal Service defaulted on amounts totaling \$33.9 billion through FY 2016.¹⁰⁸

In FY 2017, the retiree health payment requirements changed. The retiree health premium payments were paid directly out of the PSRHBF, saving the

Postal Service \$2 to \$3 billion dollars per year. In addition, the annual pre-funding payments were no longer hard-coded into the law. Instead, the law required that, starting in FY 2017, the Postal Service had to make two types of annual payments into the PSRHBF: (1) normal payments and (2) amortization payments of unfunded liability.¹⁰⁹ The Postal Service did not make either of these payments in FY 2017 or FY 2018.¹¹⁰

As shown in Table 5, the total invoiced but not paid contributions into PSRHBF is \$42.6 billion. When OPM estimates the unfunded liability each year, it essentially treats these missed payments as if they were assets in the fund.¹¹¹

As discussed in a previous OIG paper, when comparing the Postal Service to other companies, federal agencies, the military, and state governments, it has done an equal or better job at prefunding its retiree health obligation.¹¹² However, the purpose of the fund is to ensure coverage of postal retirees' health benefits in the future. Now that the premium payments are coming out of the PSRHBF, if the Postal Service does not start making contributions into the fund, it will eventually be depleted, putting the future payment of retiree health premiums at risk.¹¹³

104 Ibid., p. 6.

105 Ibid.

106 Congressional action decreased the 2009 prefunding payment from \$5.4 billion to \$1.4 billion and delayed \$5.5 billion from FY 2011 to FY 2012, resulting in a requirement to pay \$11.1 billion in FY 2012. U.S. Postal Service, *Form 10-Q, Quarter III, 2012*, <https://about.usps.com/who-we-are/financials/financial-conditions-results-reports/fy2012-q3.pdf>, pp. 15-16.

107 USPS, *2018 Report on Form 10-K*, pg. 6

108 Ibid.

109 Ibid.

110 Ibid., p. 7.

111 While OPM acknowledges these are missed payments, it includes both the actual assets and "receivables".

112 U.S. OIG, *Postal Service Retiree Funds Investment Strategies*, Report No. FT-WP-17-001, September 20, 2017, <https://www.uspsoid.gov/sites/default/files/document-library-files/2017/FT-WP-17-001.pdf>, p. 14.

113 For additional discussion of the Postal Service's retirement obligations, see USPS OIG, *Update on the Postal Service's Share of CSRS Pension Responsibility*, RARC-WP-18-009, May 7, 2018, <https://www.uspsoid.gov/sites/default/files/document-library-files/2019/RARC-WP-18-009.pdf>, and USPS OIG, *Postal Service Retiree Funds Investment Strategies*, FT-WP-17-001, September 20, 2017, <https://www.uspsoid.gov/sites/default/files/document-library-files/2017/FT-WP-17-001.pdf>.

Table 5: The Postal Service Has Missed \$42.6 Billion in Retiree Health Benefits Payments

Retiree Health Benefit Payments (\$ Millions) Green Font = Missed Payments					
	Unfunded Liability Expense*	Prefunding Requirement (PAEA)*	Normal Cost ⁺	Premium ⁺⁺	Total
2009	0	\$1,400	0	\$1,990	\$3,390
2010	0	\$5,500	0	\$2,247	\$7,747
2011	0	\$0	0	\$2,441	\$2,441
2012	0	\$11,100	0	\$2,629	\$13,729
2013	0	\$5,600	0	\$2,850	\$8,450
2014	0	\$5,700	0	\$2,985	\$8,685
2015	0	\$5,700	0	\$3,111	\$8,811
2016	0	\$5,800	0	\$3,305	\$9,105
2017	\$955	\$0	\$3,305	\$0	\$4,260
2018	\$815	\$0	\$3,666	\$0	\$4,481
Total Payments	\$1,770	\$40,800	\$6,971	\$21,588	\$71,099
Total Missed Payments	\$1,770	\$33,900	\$6,971	<i>n/a</i>	\$42,641

* Between 2009 and 2016, the payments the Postal Service was required to pay into the fund were hardcoded into the law. Starting in 2017, they were based on the amortization of the unfunded liability.

+ Starting in 2017, the Postal Service is required to make payments necessary to fund future retiree benefits of current employees ("normal costs").

++Starting in 2017, premium payments were paid directly out of the PSRHBF.

Source: OIG Analysis of USPS Form 10-Ks, FYs 2009 - 2018.

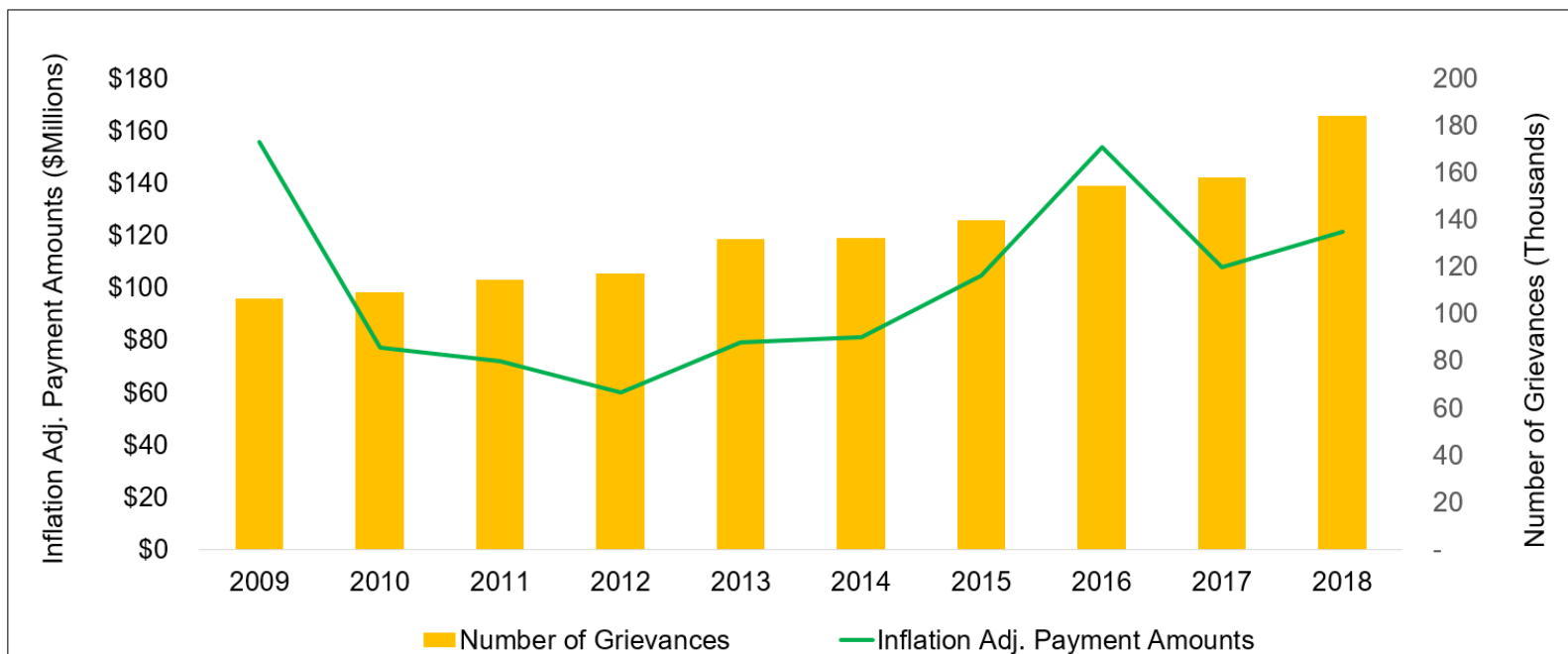
Appendix H: Grievances

The payments the Postal Service needs to make in response to grievances is included as “other” in compensation and benefits costs. The Postal Service uses the Grievance Arbitration Tracking System (GATS) database to manage grievance payments.¹¹⁴ We found that nationally, the number of grievances has consistently trended upwards, increasing on average about 6 percent annually between 2009 and 2018. In fact, in 2018 alone, the number of grievances increased by 16 percent. This raises the question of why grievances are increasing as the number of employees is decreasing. In terms of amounts paid, the Postal Service paid about \$1 billion in total during the 10-year period.

Figure 24: Grievances (FYs 2009 – 2018)

THE TOTAL NUMBER OF GRIEVANCES INCREASED OVER THE PAST TEN YEARS, EVEN AS THE TOTAL NUMBER OF EMPLOYEES DECLINED

Between FY 2009 and FY 2018, the total number of grievances had an annual average increase of 6 percent. During this same time period, the number of employees declined on average 1 percent a year. Over the ten-year period, there were 1.5 million grievances, with a total payout of \$1.0 billion.



Source: OIG Analysis of GATS data, FYs 2009 – 2018.

114 USPS OIG, *Accuracy of Grievance Settlement Payments*, Report No. HR-AR-17-003, January 27, 2017, <https://www.uspsoig.gov/sites/default/files/document-library-files/2017/HR-AR-17-003.pdf>, p. 1.

Appendix I: Management's Comments



November 22, 2019

MICHAEL COSS

SUBJECT: Draft White Paper—A Closer Look at Postal Labor Costs
(Project Number 2019RARC006)

Thank you for providing the Postal Service with the opportunity to review and comment on the subject draft white paper.

The Postal Service has worked assiduously over the past decade to reduce its labor costs in response to its ongoing financial challenges. During the 2010-2011 round of bargaining, the Postal Service significantly restructured its labor costs by 1) creating a new, less expensive non-career employee category and dramatically increasing both the number of non-career employees on the rolls and our flexibility to use them; 2) introducing a two-tier (i.e., lower) wage schedule for new career hires; 3) lowering the employer contribution for health benefits. These efforts are reflected in your conclusion that the Postal Service's inflation-adjusted labor costs have decreased by 14 percent since 2009.

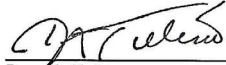
With respect to your discussion of overtime, you correctly note that a number of factors may contribute to your findings related to increased overtime, including the pitfalls of using 2009 as a base year and the growth in parcel volume. The Postal Service will continue to engage in efforts to responsibly and strategically manage its overtime use.

While the Postal Service does not disagree with your finding that labor costs may vary by region, it emphatically disagrees with your unsupported statement that the lower non-career hourly wage may be too low to be competitive in some locations. The Postal Service has engaged multiple external experts on private sector comparability over the years who have all concluded that our non-career wages are at or above market compared to those paid for comparable levels of work in the private sector of the economy.

Finally, the Postal Service agrees with your findings related to the substantial cost of its retirement benefits, which are governed by law and not subject to collective bargaining. For example, under current law, retiree health benefits may not be negotiated with employee unions. The Postal Service's share of premium costs for postal retirees is set according to a statutory formula and is not subject to negotiations. Likewise, benefit levels, available health plans, and individual eligibility rules for annuitants are all managed by the Office of Personnel Management by law and are not subject to collective bargaining. Nor can the Postal Service negotiate over statutory federal retirement benefits (i.e., CSRS or FERS). As you note, these statutory benefits make up approximately 24% of the Postal Service's total labor costs. Any changes to these

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260

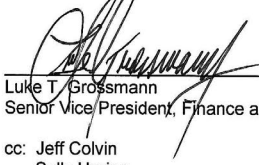
benefits to make them more affordable and sustainable for the Postal Service (such as integration of retiree health benefits with Medicare, which is supported by the Postal Service, major mailers, and postal unions) must be accomplished through legislation.



Doug A. Tulino
Vice President, Labor Relations



Kevin L. McAdams
Vice President, Delivery and Retail Operations



Luke T. Grossmann
Senior Vice President, Finance and Strategy

cc: Jeff Colvin
Sally Haring
Jennifer Daehn



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

Contact us via our [Hotline](#) and [FOIA](#) forms.

Follow us on social networks.

Stay informed.

1735 North Lynn Street
Arlington, VA 22209-2020
(703) 248-2100

For media inquiries, contact Agapi Doulaveris

Telephone: 703-248-2286

We conducted work for this white paper in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation (January 2012).