



Is the Post Office Really Broken? If So, How Do We Fix It?

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ABOUT THE NEW CENTER

American politics is broken, with the far left and far right making it increasingly impossible to govern. This will not change until a vibrant center emerges with an agenda that appeals to the vast majority of the American people. This is the mission of The New Center, which aims to establish the ideas and the community to create a powerful political center in today's America.

THE NEW CENTER

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EXECUTIVE SUMMARY

As America's most (in)famous postal worker, Newman, of Seinfeld fame, once said,

*“When you control the mail
... you control information.”*

And in 2020, amid an unprecedented surge in mail-in voting, the U.S. Postal Service (USPS) may well control the outcome of this year's election.

This explains how the typically staid and boring business of moving envelopes across the country has become a source of heated national debate.

In summer 2020, U.S. Postmaster General Louis DeJoy faced intense national scrutiny over the implementation of operational changes—such as closing mail processing facilities and limiting overtime—which he said were part of a broader effort to secure the post office's long-term financial sustainability. On August 18, DeJoy announced he would delay these reforms amid significant concerns it could impact the ability of the postal service to process mail-in ballots.

But it begs some important questions. What needs to be reformed at the USPS anyway? Is it fundamentally broken and bankrupt as some of its most strident critics in Congress suggest? Or would it be fine if Congress just made a few fixes to bad policies they passed over the years? This New Center issue brief attempts to answer these questions.



PUBLIC OPINION OF THE POSTAL SERVICE

Any discussion on the future of the U.S. Postal Service should begin with this one key fact.

The American people really like it.

According to a 2019 Gallup poll, 74% of people say the U.S. Postal Service does an “excellent” or “good” job. Among the 13 federal departments and agencies evaluated in the poll, the USPS was the most positively viewed, just as it was in previous polls from 2014, 2017, and 2018. A 2018 Pew Research Center Poll found 88% of Americans have a positive view of the USPS, higher than the approval ratings for the Centers for Disease Control and Prevention (CDC), the Federal Reserve, and the Federal Bureau of Investigation (FBI).

The American people also have a decisive view on how the U.S. Postal Service should be run. In a recent Washington Post-University of Maryland poll, twice the number of people (66%) agreed with the statement that the USPS “should be run like a public service, even if that costs the government money” compared to the number of people (32%) who agreed with the statement that the USPS “should be run like a business, even if that limits the services it provides.” With such broad support for the performance of the U.S. Postal Service, and agreement on how the public wants it to be run, what sort of reforms are necessary?

BY THE NUMBERS

- The United States Postal Service employs over 600,000 people, which is greater than all private employers except Amazon and Walmart
- The USPS serves 160 million homes, businesses, and other delivery points
- From 2008 to 2019, the USPS has reported \$69 billion in losses. For the 2019 fiscal year, it lost \$8.8 billion on \$71.1 billion of operating revenue
- Since reaching a peak of 213 billion units in 2006, mail volume has declined 33% to a 2019 total of 142.6 billion units in 2019

WHAT IS THE UNIVERSAL SERVICE OBLIGATION?

The U.S. Postal Service has the unique duty of carrying out a universal service obligation for the American people. According to the USPS mission statement, “the Postal Service’s USO is broadly outlined in multiple statutes and encompasses multiple dimensions: geographic scope, range of products, access to services and facilities, delivery frequency, affordable and uniform pricing, service quality, and security of the mail.” In practice, this means the USPS has to offer its services and mail delivery anywhere in the United States, including the most rural or isolated places in the country.

HOW A 2006 LAW MAKES IT IMPOSSIBLE FOR THE POST OFFICE TO BE PROFITABLE

Critics of the U.S. Postal Service sometimes say it needs to “run more like a business,” including a majority of Republicans, according to a 2020 Washington Post-University of Maryland poll.

But the U.S. Congress has in recent years put burdens on the U.S. Postal Service that make it virtually impossible for the post office to operate profitably.

A signature example is the 2006 Postal Accountability and Enhancement Act (PAEA)—passed by a Republican-led Congress and signed into law by President George W. Bush in 2006—which created new accounting and funding rules for the Postal Service’s retiree pension and health benefits. In 2002, the Office of Personnel Management found that the Postal Service had been significantly overpaying into its pension fund, leaving it with cash beyond what was needed to meet its current employee retirement liabilities. Having recognized that the USPS was contributing more than necessary to fully fund its pensions in the early 2000s, Congress decided that the USPS could divert some of those contributions to the underfunded retiree health benefits.

Up until 2006, the USPS funded those obligations on a pay-as-you-go basis, pulling out of its pension fund and adding to it as it needed to pay retirees’ healthcare benefits. But the PAEA established the Postal Service Retirement Health Benefits Fund (RHBF), which required the Postal Service to calculate all of its likely pension costs over the next 75 years, and then sock away enough money between 2007 and 2016 to cover most of them. Under its previous pension contribution rules, the USPS would be expected to contribute approximately \$5.6 billion per year from 2007 to 2016 and to stretch any additional obligations over the almost 40 years from 2017 to 2056. Shortly after the PAEA requirements were passed, however, the economy sank into the Great Recession and digital competition intensified, driving down USPS revenues. As a result, the USPS has missed \$42.6 billion of required payments on its retiree health benefits since 2010, and \$5.6 billion in required contributions to its pension plan since 2014.



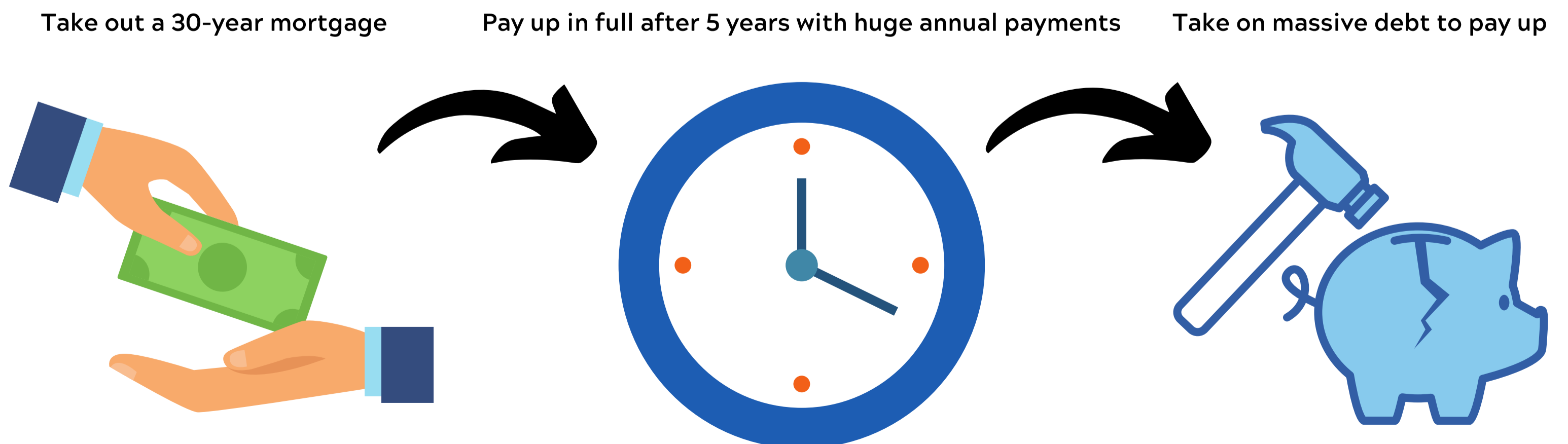
Much of the USPS debt is due to this pre-funding obligation, which is a burden placed on very few government agencies, much less private companies.

No other public or private company in the nation bears any kind of financial burden like that. Even worse, none of that money earmarked for retiree pension and health benefits is truly being set aside. Instead, it is going directly into the U.S. government’s general fund, and it’s being spent on current government operations. The set-aside is a theoretical accounting gimmick.

From 2004 to 2006, the USPS made \$6 billion in profits. By the end of 2019, it was \$160.9 billion in debt, with \$119.3 billion due to retiree benefits, according to the Government Accountability Office. Consider your average 30-year mortgage. What if you had to set aside a few hundred thousand dollars right now, enough to pay the whole thing, even if you were still going to make payments over 30 years? No one would ever take out a mortgage. That's the whole point: the costs only come in over time, and the income you use to pay them comes in over time as well. It works exactly the same for retiree pensions and benefit funds. Which is why, as economist Dean Baker pointed out in a Congressional hearing, pretty much no other organization does what the PAEA demanded of the Postal Service. "It is equivalent to imposing a tax of 8 percent on the Postal Service's revenue," Baker said. "There are few businesses that would be able to survive if they were suddenly required to pay an 8 percent tax from which their competitors were exempted."

Additionally, the PAEA required the Postal Service to invest its retiree funds exclusively in lower-risk but also lower-return government bonds. According to Pew Trusts, the average assumed rate of return for a pension fund is 7.33%. However, the current yield on a 10-year U.S. Treasury bond is at a decades-low 0.89%. This requires the USPS to set aside even more money to achieve the same benefit level, even as it will be more difficult than ever before to achieve an annual return capable of covering future liabilities. Dean Baker, Co-Director for the Center for Economic and Policy Research, calculated that just getting rid of the pre-funding requirement could make the Postal Service profitable again.

WHAT IF YOU HAD TO PAY YOUR MORTGAGE THE WAY THE USPS HAS TO FUND ITS RETIREE BENEFITS?



PRESIDENT TRUMP'S TASK FORCE ON THE U.S. POSTAL SERVICE

On April 12, 2018, President Trump issued an Executive Order establishing a Task Force on the United States Postal System, chaired by the Secretary of the Treasury and including the Director of the Office of Management and Budget and the Director of the Office of Personnel Management. The Task Force was directed to evaluate the operations and finances of the USPS and to develop recommendations for administrative and legislative reforms that will enable the USPS to create a sustainable business model. The Task Force's recommendations include, but are not limited to:

- Improving governance by strengthening the USPS Board of Governors and developing enforcement mechanisms to ensure financial commitments and reforms are met;
- Clearly defining the Universal Service Obligation by specifying what are “essential postal services,” or types of mail and packages for which a strong social or macroeconomic rationale exists for government protection;
- Developing a new pricing model that removes price caps and charges market-based prices for both mail and package items that are not deemed “essential postal services”;
- “Modernizing the USPS’s cost standards and cost allocation methodology;
- Pursuing cost-cutting strategies that will enable it to meet the changing realities of its business model;
- Reforming USPS employee compensation in a manner consistent with proposed reforms to the broader federal workforce, which, on balance would lower wages;
- Restructuring retiree health benefit liabilities with a new actuarial calculation that is based on employees at or near retirement age; and
- Exploring new services that will allow the USPS to exact value from its existing assets and business lines, but that present no balance sheet risk such as processing hunting or fishing licenses and sharing space with complementary retail establishments.

While the Task Force's report on the U.S. Postal Service includes recommendations with merit, such as developing a more flexible pricing model and expanding the services offered, the report doesn't address the service's biggest financial problem: the pre-funding obligation of future postal workers' retirement healthcare benefits. Any reform that will truly put the U.S. Postal Service on a path to long-term financial sustainability has to change this rule.



NEW CENTER SOLUTIONS

REMOVE THE PRE-FUNDING REQUIREMENT OF THE POSTAL SERVICE RETIREE HEALTH BENEFITS FUND IMPOSED BY THE PAEA

The U.S. Postal Service is slated to run out of funds by 2024, and absent any changes, it would require a taxpayer-funded bailout. By simply changing the requirement to pre-fund employees' retirement healthcare benefits, the USPS would have been making comfortable profits over the last decade instead of racking up enormous debt. The USPS Fairness Act, a bipartisan bill that already passed the House of Representatives in early 2020, would repeal this requirement and its sponsors argue would help ensure the financial solvency of the U.S. Postal Service. U.S. Representative Peter DeFazio (D-OR), the sponsor of the USPS Fairness Act, states that "the pre-funding mandate has not only prevented USPS from investing in services, technology and products, but it has also threatened core services that [Americans] rely on, including door-to-door delivery and six-day delivery. This legislation will not only end USPS's financial crisis but will allow the agency to invest in critical improvements, all while maintaining its commitments to retirees' health benefits."

ALLOW THE POST OFFICE TO PROVIDE OTHER SERVICES

In many American communities, the post office was historically called the "federal building," and it served as a one-stop shop for numerous governmental needs. In smaller towns and cities, for example, the post office was a focal point for immigrant registration, military recruitment, and distributing income tax forms. There is no reason that America's post offices can't again provide a variety of important governmental functions. Today's post offices could have all tax forms readily available, offer full passport services to any American who walks through the doors, and allow congressional representatives to station their district staff right in community post offices. However, many non-postal services that include creative ideas such as Internet cafes, copy services, notaries, or even allowing postal workers to offer to wrap Christmas presents, have been made off limits due to regulations imposed by the PAEA. The USPS should be allowed to offer such services without being bound by the unnecessary regulation of the PAEA that limits their ability to find new sources of revenue.

