



U.S. Postal Service on track for its best financial year since 2015

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President Donald Trump tweets that the U.S. Postal Service "has been failing for many decades." Other critics predict its demise. In Congress, the future of the USPS — including its vital role this November in handling what's expected to be a tide of mail-in ballots — has become yet another partisan firing line.

What's lost in the political furor is this: The Postal Service is on track to have its best year in more than half a decade — that's even after taking a severe financial hit, like businesses around the country, from the coronavirus.

In the first six months of 2020, the USPS' operations generated \$2.3 billion in cash, an increase of \$700 million from the year-ago period. Notably, none of that is from cost-cutting. Expenses are actually up \$2 billion, or just under 3%, in the past nine months due in part to an increase in paid sick leave as a result of the pandemic, as well as the purchase of personal protective equipment and other services to keep workers safe.

By comparison, between December and May FedEx brought in \$3 billion. Yet the private shipping giant's cashflow has proved less resilient, falling 12% this year as the coronavirus pandemic slammed the economy. The post office has seen a surge in demand for package shipping, even as regular first-class mail has dropped.

To be sure, the USPS faces real challenges. A May report by the U.S. Government Accountability Office described the Postal Service's financial condition as "poor." But nearly all of those losses stem from how the Postal Service accounts for its pension and health care obligations. Address that and its financial situation improves dramatically.

"If it wasn't for the retiree benefits, the Postal Service would be break-even, or perhaps even a little bit better," post office historian and policy analyst Christopher Shaw, told CBS MoneyWatch.

He also points out that until 1970, no one expected the Postal Service — never a for-profit enterprise — to break even. "If you track it as a public service with a major universal mandate to deliver the mail to all citizens, the losses over time have been pretty consistent and not that big," Shaw said.

Is the USPS profitable?

Not quite, at least not in the way that accountants normally calculate profit and loss. Last month the Postal Service reported a loss of \$2.2 billion for the second quarter of 2020. For the first nine months of its current fiscal year (which ends in September), the Postal Service lost \$7.5 billion. That was up from a loss of \$5.9 billion in the same period the previous year.

The Postal Service's net losses include retiree pensions and health care, as well as other benefits. In 2006, Congress mandated that the USPS expense the potential cost of those benefits annually, even though, according to the May GAO report, the agency hasn't spent any money funding those future benefits since at least 2014.

The upshot: Much of the tens of billions of dollars in net losses that the Postal Service has racked up in the past decade are paper losses — not cash expenditures.

Accounting expert Robert Willens, who runs his own consultancy, said net income is an especially important gauge for investors as a measure of whether the bottom-line value of an investment has gone up or down. Yet the question of whether the Postal Service is a good investment is not the issue.

Willens said a better way to gauge the USPS' financial condition is to look at its cash flow, which tracks how many dollars are going in and out of a company (or in this case a semi-detached arm of the government). Based on that, the Postal Service is a cash cow, generating a total of \$13.5 billion over the past five years.

"What financial measure you look at depends on why you are looking," he said. "Here you are interested in solvency and whether the Postal Service generates sufficient cash to fund its operations. The income statement won't tell you that."

How much cash does the Postal Service have?

A lot — and its stash is growing. The USPS had \$13.3 billion in cash as of June 30, according to its most recent financial statement. That was up from roughly \$8.4 billion in mid-2019. Part of the reason for that jump, though, is that the Postal Service borrowed an additional \$3.3 billion earlier this year.

In April, the Postal Service did warn that it could run out of cash by October. But that warning was based on a projection that the USPS' revenue would drop by \$13 billion this year because of

the coronavirus. If that had happened, then the Postal Service could — without any financial adjustments — have been in danger of running out of cash. But it didn't.

Instead, revenue for the Postal Service has risen more than \$500 million in the past nine months, driven by a 20% jump, or \$3.4 billion, in sales from shipping packages that has more than offset the drop in first-class mail.

In June, the Postal Service updated its outlook to say that it could run out of money by the end of 2021. But that, too, is based on a projection of possible virus-related losses.

"The Postal Services' expected losses this year were not as bad as what people predicted," said Christopher Edwards, an economist at the libertarian think-tank Cato Institute. Still, he thinks Mr. Trump is right to raise concerns about the USPS' longer term financial viability. "I think growing losses at the Postal Service is a problem that is not going to go away."

Does the USPS really need a bailout?

Despite the USPS' improving financial condition this year, its long-term retiree benefit obligations — at over \$60 billion — are large and growing. The bulk of those benefits won't be owed for a long time. But the GAO does note that the money the Postal Service has set aside to fund its retiree benefits will run out by 2030.

If it doesn't put away any additional money by then, the USPS would still be able to fund its retiree benefits out of its excess cash flow for a while. But eventually it would have to either renege on benefits or get federal assistance.

House Speaker Nancy Pelosi has called a vote this weekend on legislation that would deliver \$25 billion in emergency funding for the Postal Service. But it's not clear where that figure comes from. Earlier this year, the Postal Service Board of Governors asked for \$25 billion in additional aid, but that was based on their earlier prediction of huge coronavirus-related losses, which has proved excessively dire.

What's more, the USPS was already authorized to get an additional \$10 billion earlier this year under the Coronavirus Aid, Relief and Economic Security Act, which it has yet to tap.

On Tuesday, Post Master General Louis DeJoy suspended what he said were "longstanding operational initiatives" meant to cut costs at the USPS. In response, Pelosi told reporters on Tuesday, "I think it's really important for the American people to know this: When they talk about the Postal Service, they say 'Oh, they're losing money, we have to make this, this and this.' That's not the point. It's not a business. It's a service."