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How to solve the USPS financial 'death spiral'

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The U.S. Postal Service has for years been unable to bring in enough revenue to offset annual costs, delaying infrastructure investments and defaulting on payments in order to make sure that its workforce is still paid and deliveries happen as scheduled.

Chris Edwards, director of tax policy studies at the Cato Institute, called the current trajectory for USPS a "death spiral" at an April 30 hearing before the House Committee on Oversight and Reform.

"Given the restraints imposed by law, no set of management actions is sufficient to offset the continuing decline in the use of mail," said Postmaster General Megan Brennan.

"We cannot overcome systemic financial imbalances caused by business model constraints. Forcing the Postal Service to default on mandated payments in order to deliver the mail is an untenable public policy. Even if the Postal Service decides to continue with our current pattern of defaults, absent legislative and regulatory reforms, we are likely to run out of cash in 2024."

But according to experts who testified at that hearing, there are widely agreed on legislative solutions that could radically improve the financial state of USPS.

Fredric Rolando, president of the National Association of Letter Carriers, said that 92 percent of the recorded financial losses at USPS are due to a 2006 law that requires the service to prefund its retiree benefits, a policy that no other federal agency is required to follow.

"Rarely have circumstances turned from what was supposed to buttress a public good into a mortal threat to the organization overall," said Joel Quadracci chairman, president and CEO of Quad/Graphics.

Legislation attempting to remove the prefunding requirement and make other financial adjustments to the USPS system passed unanimously out of the House Oversight Committee in the last Congress, but the bill was never brought to the House floor for a wider vote.

But just removing the prefunding requirement will not completely solve USPS financial challenges.

According to Brennan, requiring USPS retirees to enroll in Medicare, lifting some of the price caps on USPS services and allowing USPS to diversify its services would all go a long way to putting the agency back on track to financial solvency.

Rolando said that his union would support the Medicare requirement, so long as exceptions were made for USPS retirees that relied on veteran benefits or who lived abroad and would not be able to use Medicare services.

But not all federal unions agree with the change.

“[The National Active and Retired Federal Employees Association] recognizes the need to reform the USPS due to its decades-long financial liabilities. However, requiring postal retirees to enroll in Medicare Part B or forfeit their coverage through the [Federal Employee Health Benefits] is not the right approach,” said NARFE National President Ken Thomas in a statement.

“Unfair and high-handed, this proposal removes choice for Postal Service retirees with regard to their health insurance coverage after they retire, imposes additional significant costs to them and taxpayers and sets a dangerous precedent for all federal employees.”

As USPS is funded entirely by revenue generated from mailing packages and letters rather than taxpayer funds, enabling the service to raise prices on services that make up about 90 percent of its revenue beyond the 2006 capped limit would also help financial solvency.

Witnesses at the hearing all agreed that there was also potential for the agency to expand its services through already established infrastructure.

Citizens could, for example, use USPS for expanded passport and ID services or even basic financial services like check cashing and refillable gift cards, all of which would rely on the technological and physical infrastructure that USPS already operates.

Edwards, however, said that the only way for USPS to remain financially stable for the foreseeable future would be to privatize the agency, a move advocated for by the Cato Institute, supported by the White House and instituted in many European countries.

The Cato Institute is partially funded by FedEx, a private shipping company.

But according to Rep. Stephen Lynch, D-Mass., most of those countries do not compare to the population and geographical size of the United States, as USPS has a mandate to provide universal service regardless of location.

Edwards suggested that privatization could improve finances be providing competition with private entities, cutting labor costs through the removal of defined pension programs, closing some USPS locations and narrowing the universal service obligations.

Many members of the committee firmly opposed privatization efforts, and Lynch noted that the United Kingdom saw a rate increase of 30 to 40 percent after they privatized their mail service.

Brennan and other members of the USPS Board of Governors, which currently only has four of its 11 seats filled, are scheduled to present Congress with a business plan for economically improving U.S. mail in the next couple of months.

Committee Chairman Elijah Cummings, D-Md., said that he would bring Brennan before the committee again once that plan was released to determine which of its suggestions would be most agreeable and require legislative support.