

U.S. Postal Service's Detour Decade: First-Class Mail Plummets, Package Volume Spikes

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Executive Summary

The U.S. Postal Service's (USPS) mail delivery standards and performance are under intense scrutiny as the election approaches and it recovers from a summer disruption.

First-class mail delivered on time fell to as low as 83 percent in July before starting to recover. It was above 90 percent when Postmaster General Louis DeJoy took office on June 15.¹

Getting back to the 90 percent rate, however, is nothing to celebrate. At that performance rate, it takes more than half a day longer to deliver first-class mail than in 2012. Americans deserve better.

A review of Postal Service practices and statistics shows that slowing delivery times are part of a decade long pattern that shows no signs of turning around. Lower delivery standards went into effect in 2012 and 2015. Despite the lower standards, USPS service performance continues to decline, meaning it takes the mail longer to be delivered.

While mail volume was destined to decline because of the Internet, the time it takes to deliver mail was not. All indications are it takes longer to deliver mail today than in the 1970s when mail volume was at comparable levels, and mail technology was inferior. The Postal Service's premeditated strategic decision to increase delivery times and reduce service standards likely accelerated the decline in first-class mail volume.

Perhaps more disturbingly, there is no attempt being made to revitalize first-class mail, which the Postal Service has often referred to as its most profitable business.² First-class mail is also not going away. It will be an enormous monopoly business of approximately \$15-20 billion annually five years from now.³

The decline in first-class mail standards and increased delivery times has directly corresponded with USPS's aggressive expansion into the packages business, where timely deliveries are essential. USPS, however, is not required to disclose package delivery times and guards this information intently. On the few occasions when this information has leaked out, the statistics show stellar performance. It is counterintuitive to believe, though, that the package business would boom without consistent, timely deliveries.

This past summer is not the first time that significant mail delays have occurred. There were lengthy nationwide delays, especially in rural America, in 2015 when new standards were put into place. This led to Congressional investigations and proposed legislation. The underlying causes of the delay, however, have not been addressed.

Furthermore, USPS's self-reporting of how it has met delivery standards is often confusing. The core figure is the percent of time that a product category has been delivered on time. As such, it is difficult to extract how much longer or shorter it is taking a piece of mail to reach its destination. Based on USPS's own information, however, first-class mail takes more than half a day longer on average to be delivered today than it did in 2012.⁴

These issues and related policy recommendations are reviewed in the following issue brief. To improve mail service and transform USPS into an organization that will break even financially, it is important to make sure that the resources for mail service are clearly delineated from package delivery, with the costs understood in each area and prices set accordingly.

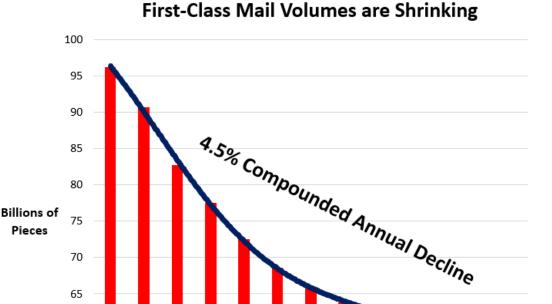
There is abundant evidence that is not occurring today, including the increase in mail delivery times.

The National Importance of First-Class Mail

Only the U.S. Postal Service can deliver the mail, and first-class mail is what matters most to the American people. First-class mail is for personal correspondence. For example, it is how one sends a sympathy card to a dear friend who has lost a loved one. It is how many choose to still pay their bills and to receive checks. And, it is how official documents, such as recall notices, are sent.

By law, the Postal Service is to prioritize mail delivery over package delivery.⁵ If the Postal Service has in fact prioritized packages over mail, the new Postmaster General needs to root this out.

USPS often refers to first-class mail as its most profitable product.⁶ It is still a big business. In 2019, the Postal Service's first-class mail revenues were \$24.4 billion and 54.9 billion pieces of first-class mail were delivered.⁷ Were the Postal Service a company, and first-class mail its only business, it would be ranked number 124 on the Fortune 500⁸ with higher revenues than McDonald's, Union Pacific and Halliburton.



2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

Source: "First-Class Mail Volumes Since 1926," U.S. Postal Service, Office of the Historian, February 2020.

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Postal Service Strategic Decision to Increase Delivery Times and Reduce Service

On September 15, 2011, the Postal Service announced "sweeping changes" to help it save \$3 billion annually. Proposals under consideration included "reducing mail processing equipment by as much as 50 percent."9

The Postal Service was clear as to what this meant for mail delivery: "The mail processing network was constructed to process and deliver First-Class Mail within a 1-3 day window ... With the proposed change, the new service standard would become 2-3 days, meaning that on average, customers would no longer receive mail the day after it was mailed."

Fredric Rolando, president of the National Association of Letter Carriers, raised prophetic concerns about USPS's plans to significantly lower its first-class mail standard.

"High-quality service is essential to preserving the value of our networks and to any future growth strategy. Degrading standards not only hurts the public and the businesses we service, it is also counterproductive for the Postal Service because it will drive more people away from using the mail," Rolando said to *The New York Times*. ¹⁰

Longer Delivery Times than in the 1970s

From 1971-2012, the Postal Service had a one-day standard for delivery of much of its first-class mail. By 2015, the one-day standard was eliminated entirely.

During the 1970s, first-class mail volume ranged from 48.6 billion to 57.9 billion pieces of mail annually, comparable to 2019's 54.9 billion pieces.¹¹

In 1974, the Comptroller General reported to Congress that USPS was sorting half of its mail manually. However, the standard for 1-day overnight delivery of mail was met 90 percent of the time. This was for delivery within sectional centers and adjoining sectional sectors. Two-day delivery was for other mail within a 600-mile radius and three-day delivery for all other first-class mail.¹²

The decision to set lower standards for first-class mail was implemented in two stages, with the first starting on July 1, 2012. In fact, USPS delivery standards peaked for fiscal year 2012 (the 12-month period ending September 30, 2012). In its 2012 Annual Report to Congress USPS said, "Performance against nearly every standard improved throughout 2012, meaning that customers benefitted from record-high on-time delivery percentages." ¹³

Things soon began to change.

For 2013, the Postal Regulatory Commission (PRC) said, "For mail affected by the changes, it is difficult to compare FY 2013 service performance results with past years." ¹⁴

These changes and lower standards, the PRC noted, were substantial, "shifting much of the volume of mail previously subject to the oversight service standard to either the 2-day or 3-5-day standard" and "shifting much of the volume of mail previously subject to the 2-day service standards to the 3-5-day service standard." ¹⁵

In a September 2014 report, the U.S. Government Accountability Office (GAO) was more critical, identifying service declines that started in 2013. "National performance for single-piece First-Class Mail with 1-day, 2-day, and 3-5 day delivery standards was generally improving until the second quarter of fiscal year 2013, then leveled off or declined, with 3-day performance declining throughout fiscal year 2014. National delivery performance for bulk First-Class Mail with 1-day, 2-day, and 3-5-day delivery standards improved in fiscal 2012, but generally declined throughout fiscal year 2014," said GAO.¹⁶

Timeline of Deteriorating Mail Standards

December 2006: The Postal Accountability and Enhancement Act (PAEA) is signed into law by President Bush amid broad, bipartisan support.

Spring 2011: The Postal Regulatory Commission says it "is concerned with the Postal Service's ability to report service performance measurements for market dominant products as required by PAEA by the filing date of the FY2011 Annual Compliance Report."¹⁷

September 15, 2011: Postal Service proposes changing first-class mail delivery standards from 1-3-day window to 2-3 days. ¹⁸ At the time, 42 percent of first-class mail was delivered the next day. Previous standards had been in place since 1971.

July 1, 2012: First phase of reduced delivery standards, announced in 2011, become effective.

Late 2012: USPS reports "record-high on-time delivery percentages" for first class mail for fiscal year 2012 (period ending September 30, 2012). 19

Fiscal Year 2014: Composite First-Class Mail meets its service target 94.11 percent of the time.

January 2015: USPS begins the second phase of lower delivery standards for First-Class Mail service standards, affecting roughly 14 billion pieces of the total volume (or 9%) and up to 16% of First-Class Mail.

Spring 2016: In its 2015 Annual Compliance Determination Report, the Postal Regulatory Commission says it is "concerned with the recent dramatic decline in service performance for First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard and determined that First-Class Mail Single-Piece Letters/Postcards does not meet its service performance target and is therefore not in compliance." ²⁰

March 25, 2020: The PRC reports, "For the fifth consecutive year, no First-Class Mail product category achieved its service performance target." ²¹

GAO also found, "Revised delivery standards have increased delivery times for some First-Class Mail and Periodicals, notably by reducing mail with a 1-day (overnight) standard."²²

The lower standards enabled USPS to meet standards, i.e., to get higher grades on its report cards. "USPS added that since most First-Class Mail and some Periodicals would no longer be subject to a 1-day delivery standard, USPS could meet its delivery standard with fewer mail processing facilities."²³

In Fiscal Year 2015, after the second phase of lower standards was implemented, there was a disturbing fall in service. The PRC said, "The Commission is concerned with the recent dramatic decline of service performance for First-Class Mail Single-Piece Letters/Postcards with a 3-5-Day service standard and determines that First-Class Mail Single-Piece Letters/Postcards does not meets its service performance target and, therefore, is not in compliance." ²⁴

While service rebounded in Fiscal Year 2016, it was still short of established goals. Following another modest increase in Fiscal Year 2017, standards have continued to fall from 2018-2020.

In a March 25, 2020 press release the PRC said, "The Commission reports that most products failed to meet their service performance targets in FY 2019. For the fifth consecutive year, no First-Class Mail product category achieved its service performance target."

First-Class Mail Service Standards Continually Not Met Target: 96.0% On-Time Delivery

Year	<u>Actual</u>
2013	N/A
2014	94.11 %
2015	89.64 %
2016	92.34 %
2017	93.29%
2018	92.07%
2019	92.02%
2020 (Q1)	90.37%
2020 (Q2)	92.18%
2020 (Q3)	90.82%

Sources in endnotes.²⁵

By contrast, package delivery performance appears to have been much stronger. While USPS fights disclosing this information publicly, a presentation at its March 1, 2017 Mailers' Technical Advisory Committee showed parcel select packages were delivered more than 99 percent of the time in two quarters (see below).

Package Service Standards (Seldom Reported) Extraordinary 99.55%+ On-Time Delivery²⁶

Parcel Select

Period	Met Service Standard
First Quarter 2016	99.55%
First Quarter 2017	99.75%

Time in Transit: What Should Be Prominently Reported

The Postal Service's reported measurements are opaque and provide an incomplete picture to the American people and policymakers. Actual delivery times should be reported in addition to providing the percentage of time that mail is delivered by the Postal Service-set standard.

On March 27, 2015, USPS reported that prior to the January 2015 service change, "First-Class Mail was delivered in an average of 1.8 days." On August 7, 2020 it announced that this average time was 2.3 days for the period ending June 30, 2020.²⁷

Given that mail standards were also lowered in July 2012, and have declined since June 30, 2020, the increased average delivery time is probably closer to an additional 0.67 days. Put differently, odds are it will take a day longer to send a piece of first-class mail today compared with 2012.

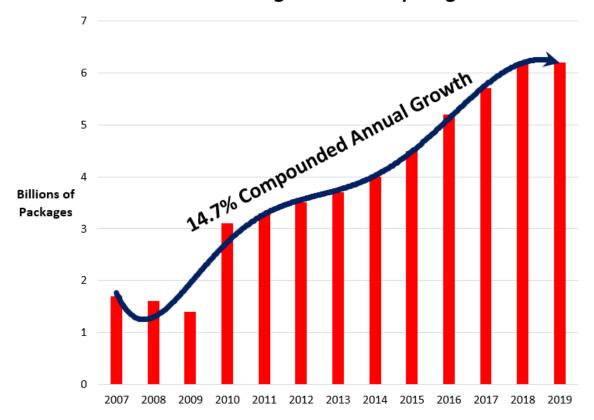
Two committees in Congress now require weekly mail and package delivery performance information from USPS. As part of holistic reform, this information should continue to be provided to the committees and to be publicly disclosed on the Postal Service's website each month. Information must be added about average delivery times.

It is also in the public interest for this information to be disclosed for packages. Furthermore, given that Congress has made available a \$10 billion loan to the Postal Service and that the Postal Service has defaulted on over \$44 billion in retiree health benefits and pension payments to the U.S. Treasury²⁸, the public has a right to expect the Postal Service to be more transparent with this and other basic financial information.

Growth in Packages

From 2007-19, USPS's package volume boomed. This trend has accelerated during the pandemic. In the third quarter of Fiscal Year 2020 (April 1-June 30, 2020), package volume was up 49.9 percent compared with the same period a year ago.²⁹

Package Volume is Spiking



As seen above, the U.S. Postal Service has had 14.7 percent compounded annual growth in package volume since 2007.³⁰

The nature of package delivery is fundamentally different from mail delivery. Mail goes to practically every resident. Packages go to a smaller number. Package delivery requires multiple trips back to facility over the course of a day. Mail delivery often does not. Most of the Postal Service's vehicles were designed for mail and can hold tens of thousands of dollars of mail. For packages, a lower revenue amount can be transported in one trip.

Rationalizing Costs and Prices

With the USPS having a self-described broken business model and likely to run out of cash in a year, holistic postal reform should be a Congressional priority. GAO wrote of the need for such reform in its May 7, 2020 report, *Congressional Action Is Essential to Enable a Sustainable Business Model.*³¹

With such reform, the reset button can be hit on mail standards, and mail service should be at least as good as it was in 2012. To get there, it is important to delineate and understand the costs for each postal product.

In its December 2018 Postal Service Task Force Report, the Treasury Department urged that there be a clearer delineation between mail and packages. It recommended "a

separate balance sheets for packages to help prevent cross-subsidization between the mail and package business unit."³²

It is also important that the Postal Service better understand the costs of its products so that each product covers its costs and does not subsidize other products.

In 2014, USPS's Office of Inspector General issued a report, *Greenfield Costing Methodology, an Opportunity to Deliver Transformative Change*. Based on interviews with two dozen executives at the Postal Service, it recommended steps be taken to have more rigorous analysis of granular costs, knowing the actual cost of every item, so that better decisions can be made.

The study found a "modern bottom-up costing system would provide substantial and numerous benefits to the Postal Service, like those enjoyed by companies of comparable sizes. This costing system will provide Postal Service executives with common and accepted views of costs and profitability."³³ In 2019, the Inspector General issued a follow-on report to stress the need for such a system.³⁴ An independent, outside contractor should be retained to perform this in-depth study.

Summary

As policy makers wrestle with ongoing mail delivery concerns and the future of USPS, it is important to fundamentally re-structure the Postal Service so that first-class mail delivery, its core mission, improves. The aim should be more than returning to delivery performance of earlier in 2020, rather it should far exceed the service levels of 2012.

When Americans know first-class mail will be delivered a day or so earlier, they will send more mail. Rather than placing so much emphasis on packages, USPS should revive and cultivate first-class mail, the service that has enabled it to thrive for 245 years.

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ENDNOTES

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