POSTAL TRENDWATCH

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Postal TrendWatch
Q4, FY08

Q4: USPS Concludes FY 2008 with Multibillion-Dollar Loss

Executive Summary

The United States Postal Service (USPS) concluded FY 2008 with a $2.8 billion loss, marking the second consecutive year of billion-dollar losses for the Service. Both revenue and volume for First Class and Standard Mail declined in Q4 compared to the same period last year.

As FY 2009 began, USPS acknowledged that layoffs were being considered. Such layoffs, which would have been the first in USPS history, never took place. The agency did, however, offer early retirement to 156,000 postal employees during Q4 and parts of Q1; between three and five percent accepted. USPS asked Congress in November for permission to dip into the trust fund for future retiree and health benefits in order to finance current retiree health benefits. Rep. John McHugh (R-N.Y.) introduced a bill in December to approve such action.

Quarterly Highlights

As had been predicted, USPS saw declines in both volume and revenue in Q4, primarily due to growing feelings of economic uncertainty. Fourth quarter revenues were down $818 million from the same period last year. Overall volume fell 6.3 percent. There were full-year declines in revenue and volume for both First Class and Standard Mail. Despite reducing expenses by $2 billion, USPS posted a net loss of $2.8 billion in FY 2008.

Economic Downturn Leads to Decreased Volume and Revenue

First Class Mail revenue dropped significantly in Q4 compared to the same period last year. This is the first time in the past 3 years First Class revenue has decreased in Q4 versus the same period the previous year. In the context of the recent financial turmoil, this drop in revenue was hardly surprising.

Another consequence of the financial downturn this quarter has been a decrease in the volume of single-piece First Class Mail. Single-piece First Class volume decreased by 12.8 percent compared to the same period last year. This is the sharpest single-quarter decline in volume for the category in more than four years.

For the entire year, volume also declined precipitously. USPS's FY 2008 10K report puts the average volume of mail handled by USPS per day at 667 million pieces. This represents a decline of 38 million pieces from FY 2007's totals. In the 10K report, USPS says that the "volume drop was mainly due to the deteriorating economy, which adversely impacted almost every category of mail."

In total, First Class Mail volume fell by nearly 5 billion pieces for the year, while Standard Mail volume fell by nearly 4.5 billion pieces. More than one third of the drop in Standard Mail came in Q4 alone, which represents the severest drop in Standard Mail volume since the quarter following the 2001 anthrax attacks. The decline in Standard Mail volume, while expected because of the economy's condition, is particularly disconcerting for the agency, as it has invested substantial resources in growing the mail volume as a means of potentially ensuring viability.

Revenue for Standard Mail and First Class Mail declined by $193 million and $226 million, respectively, for the fiscal year.

Amid Another Year of Billion-Dollar Losses, Layoffs Discussed

With losses of over $2 billion and Q4 revenue down $818 million compared to the same quarter last year, USPS hinted that it would be forced to lay off workers for the first time in its history. In early October, Postmaster General John Potter reportedly told the American Postal Workers Union that USPS had identified as many as 16,000 employees that could be laid off without the need for collective bargaining. Leaders of the major postal labor unions responded with heated rhetoric and aggressive pro-Obama campaigning.

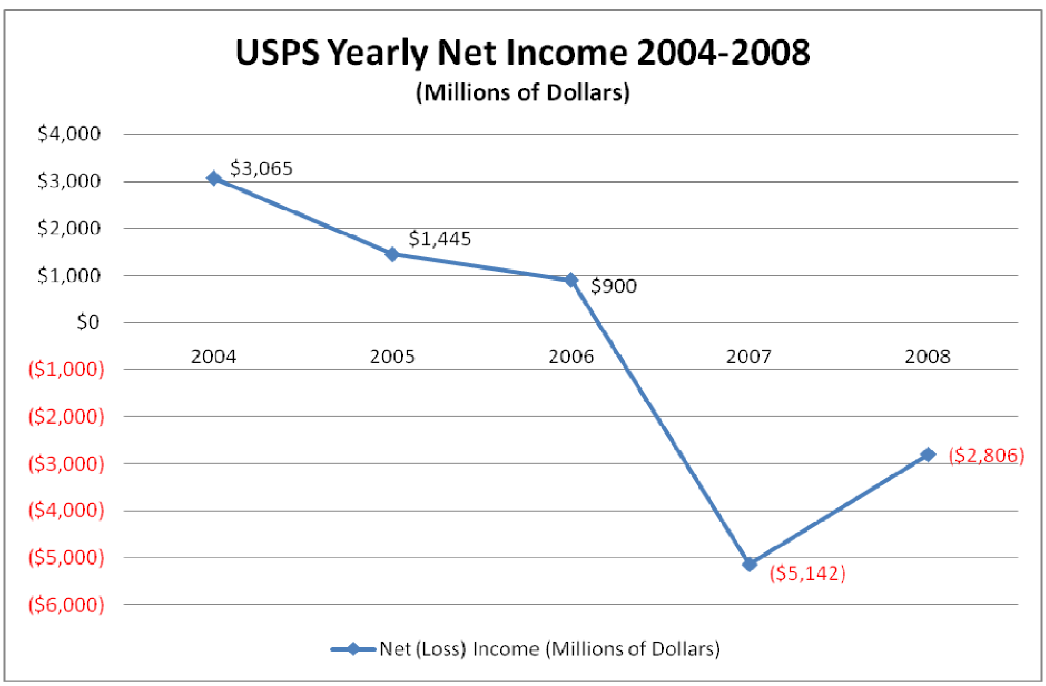
Meanwhile, calls to reverse the Postal Accountability and Enhancement Act of 2006 (PAEA) and give the Postal Service greater financial flexibility with its annual requirement to prefund benefits for retirees gathered steam. On November 12, a USPS statement declared that "the Postal Service is not laying off employees." Rep. John McHugh (R-N.Y.) formally introduced a bill allowing such financial flexibility in December. Senior postal officials have ceased talk of potential layoffs.

In September, the Postal Service offered early retirement to 72,000 mail handlers, clerks, distribution operations supervisors, and customer service supervisors. Of those, 3,700 accepted.

By January 16, 2009, another 84,000 letter carriers, headquarters staff, and motor vehicle and maintenance employees will have been offered early retirement. Postal Service management estimates that somewhere between three and five percent of them will decide to accept the offer.

Union leaders have complained about USPS's failure to provide financial incentives for employees to retire early. According to William Burrus, president of the American Postal Workers Union, "it makes little sense to leave a good paying job with benefits to enter the troubled economy unless there is incentive to do so."

In October, USPS committed to eliminating between 220 and 250 jobs from its Washington, DC, headquarters as well as "headquarters-related" units outside of Washington. This 15 percent workforce reduction, which is supposed to be carried out over the next few months, aims at relocating those employees to similar positions within USPS.



USPS Seeks What Some Call a "Postal Bailout"

In November, the Postal Service asked Congress for access to a trust fund created two years ago by the PAEA to pay benefits to future retirees. The law requires USPS to fully finance retiree health care within 10 years; this year's required contribution was $7.7 billion. Most of that money -- $5.4 billion -- was slated to for the trust fund. The rest -- $2.3 billion -- was for insurance premiums for current retirees.

The Postal Service asked Congress to waive the $2.3 billion payment for current retirees' benefits and allow it to use money from the trust fund instead. This would give the Service short-term savings but leave future retirees at risk.

Several postal leaders and experts have proposed loosening the funding requirements mandated by the PAEA. Postal Board of Governors Chairman Alan Kessler said, "We no longer believe that payment schedule can be maintained, and we're seeking relief from some of our health benefit payments. But this relief will not fix our underlying issues."

The 10K filing underscores Kessler's assessment. For example, it noted that Total Factor Productivity (TFP) declined by 0.5% in FY 2008. This is the first time TFP has dropped since 1999. Aggregate workload also declined by 3% in FY 2008. If this trend continues -- declining productivity and a declining workload -- it will be even more difficult for management to cut institutional costs and stem losses.

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-- USPS Board of Governors Chairman Alan Kessler

Postal commentator Murray Comarow has suggested extending the period for contributing to the retiree benefit trust fund to as many as 40 years. According to Comarow, USPS's financial situation "is dire, and they cannot get out of this hole by continuing to cut costs alone."

Congress has yet to render a decision on whether USPS will get some relief from these funding obligations.