USPS finances show third quarter rebound

The Postal Service is on track to break even delivering the mail this year, and without the pre-funding requirement, it would have made a $330 million profit.

Surprised? Some letter carriers might be, if they're paying attention only to the doom-and-gloom spin put on the third quarter numbers released by the Postal Service in August.

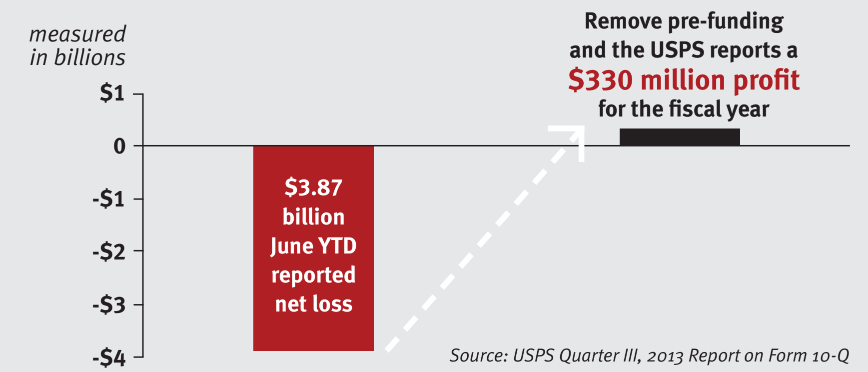
Savvy carriers who drilled down into the CFO's Aug. 9 financial report for the third quarter of Fiscal Year 2013, however, discovered that postal finances have significantly *improved* and that USPS made a profit.

And while, yes, e-mail and online bill payment continue to eat away at First Class Mail use, the credit for this small but important revenue uptick goes to an improving economy as well as to the rise of package-delivery volume, powered largely by goods ordered over the Internet.

"The real news in the third quarter report is that the Postal Service is in much better financial shape than advocates of a slash-and-shrink approach to postal 'reform' care to admit," NALC President Fredric Rolando said following the financial report's release.

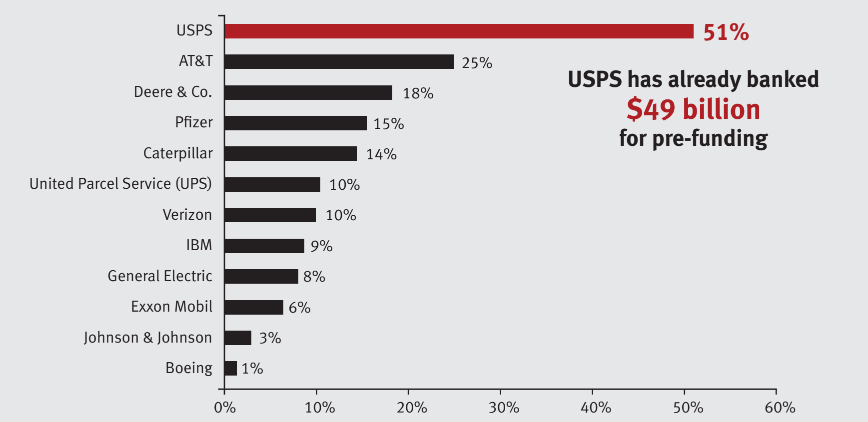
What continues to hurt the Postal Service's bottom line, of course, is pre-funding—the part of the 2006 postal reform law that requires USPS to set aside billions each year to pre-fund the

The real picture of USPS finances



Source: USPS Quarter III, 2013 Report on Form 10-Q

USPS pre-funding
vs.
S&P 500 companies' savings for retiree health care obligations



In the private sector, pre-funding would be tracked as Other Post Employee Benefits (OPEB), which is what is compared here.

Sources: USPS Financial Statements, Database of OPEB Liabilities for S&P 500 Index companies for year-end 2012, Milliman 2013 Pension Funding Study.

health benefits of future retirees. This mandate—shared by no other federal agency or private enterprise—accounts for all of so-called losses reported for this year. (See chart on opposite page.)

"Pre-funding—and not the diversion of First Class Mail to the Internet—is by far the main cause of the Postal Service's financial challenges," Rolando said.

Burrow a little deeper into the Postal Service's own financial reports and you'll find that management understands this. In its 2012 year-end report on page 23, USPS writes:

"Because the legislative mandates for prefunding of retiree health benefits and for the participation in the FECA [Federal Employees' Compensation Act] are not subject to management's control, **we believe that analyzing operating results without the impact of certain of these charges provides a more meaningful insight into current operations."** *(Emphasis added.)*

In other words: Take out pre-funding and workers' compensation costs—costs that are out of our hands—and instead look at our actual day-to-day operational expenses. (See "What about workers' comp?" at right.)

And look what you get when you focus just on revenues:

- USPS operating revenue in the third quarter of Fiscal Year 2013 (covering April, May and June) was $16.2 billion, an increase of 3.6 percent compared with the same period last year.
- Revenue for the nine-month period ending June 30 was $50.2 billion, up 1.3 percent over the same period in Fiscal Year 2012.
- These increases were driven by continued growth in shipping and package services, as well as modest increases in Standard Mail revenue.
- E-commerce continues to bolster USPS' shipping business, with shipping and package-delivery revenue up 8.8 percent in the third quarter over the same period last year, fueled by a 22.6 percent increase in revenue for the parcels and a 16.4 percent rise in Express and Priority Express revenue.

"The solution is obvious," Rolando said. "Congress needs to eliminate the pre-funding requirement and free the Postal Service to take full advantage of the opportunities offered by the digital era."

Postal Service records show that the USPS has already pre-funded decades of retiree health premiums to the tune of about $49 billion. As of now, the pre-funding account already has enough money in it to cover more than half of the total expected costs for the rest of the 21st century, a statement of fact that few other American enterprises can make, if any.

"The numbers don't lie," Rolando said. "Pre-funding has been the biggest financial burden for the Postal Service since the requirement was implemented in 2006."

But despite the improving economy and the dramatic rise in package-delivery revenue, Congress and the USPS choose to focus primarily on the existence of the red ink rather than its cause, proposing cuts, cuts and more cuts, all with an eye toward dismantling America's unique delivery network, which touches every residential and business address six days a week. (See "Harmful Senate, House bills introduced" on page 4.)

"This is absolutely the worst possible strategy," Rolando said. "It makes no sense for Congress to propose degrading service or dismantling a network that is performing well and that provides Americans and businesses with the world's most affordable delivery network. And it's just as obviously nonsensical for our elected representatives to force the Postal Service to stay the pre-funding course when no other business or agency in a similar position would adopt such an irrational retiree health pre-funding policy." **PR**

What about workers' comp?

Popping up among the factors in the Postal Service's reported losses in recent years are adjustments in workers' compensation interest rates. These accounting adjustments are necessary because workers' compensation costs fluctuate from year to year.

One thing to bear in mind, though, is that workers' comp calculations are only actuarial projections. No actual money is paid out.

But more importantly, USPS tends to use these ups and downs to bolster its own business agenda, cherry-picking data and highlighting only those figures that suit its narrative from one year to the next.

For example, when the impact of workers' comp interest rates is bad, USPS just lumps that figure into its loss column, without explaining it.

But when the impact isn't as bad, as was the case with this year's third quarter report, postal management goes out of its way to act as if those costs are completely separate from postal operations. And that helps it tamp down any talk of an operational profit.

So as far as USPS is concerned, workers' comp costs only actually count when they can help make postal losses look sky-high, which in turn helps USPS press its cost- and service-cutting agenda. And you tend to only hear about the issue when USPS needs to send a "sky-is-falling" message to Congress.

It's important to note that workers' compensation is a legitimate expense and that all workers need to be compensated—and deserve to be—when they are injured on the job.

"So if it weren't for pre-funding," NALC President Fredric Rolando said, "workers' comp costs would simply be considered part of the cost of doing business, and our conversation would turn to how the Postal Service and its unions could work together to find out what we could do—if anything—to bring those costs down." PR