

# behind the numbers

A look at USPS  
financial performance



**T**he Postal Service is touting its “remarkable results” in 2005 and rightfully so—by fiscal year-end, it had achieved a \$1.4 billion profit, an impressive turnaround from initial projections of a \$200 million loss. Volume was strong, productivity increased dramatically, and all the USPS’s outstanding debt has been repaid. Unlike most government agencies, the Postal Service provided a remarkably nimble response to Hurricane Katrina, rendering invaluable services to those affected.

Internally, the USPS appears to be in its best shape ever.

Flip over the coin, however, and you see that postage rates have just been increased, with the usual grumbling from Postal Service critics about long lines, delayed mail and general incompetence. Postal management says the 5.4 percent increase was adopted exclusively to pay for the escrow account—some \$3.3 billion a year—required by the law that fixed the USPS pension funding formula.

In addition, the Service paid \$263 million for military pension costs. No other government agency is obligated to pay for pension credit earned by its Civil Service Retirement System employees during military service. This cost represents a shift of \$27 billion from the Treasury (tax money) to ratepayers (postage costs).

So, externally, the USPS faces unjust financial burdens and deceptive criticism. The postal reform legislation the NALC is promoting would relieve these costs and move the Service closer to a level playing field with its private sector competitors.

Some key points about the USPS bottom line:

**Financial results**—Operating revenue climbed 1.3 percent in FY2005 to \$69.9 billion. This largely reflects an increase in mail volume of 2.7 percent, from 206 billion pieces to 212 billion. Operating expenses rose 3.7 percent to \$68.3 billion, leaving the income from operations at \$1.6 billion. After interest expenses of \$263 million (the military pension costs), net income for FY2005 was \$1.45 billion.

## Breakdown by class

	Pieces (millions)	Change vs. 2004	Revenue (millions)	Change vs. 2004
<b>First-class</b>	<b>98,071</b>	<b>0.1%</b>	<b>\$36,062</b>	<b>-0.9%</b>
Express	55	2.5%	\$ 872	2.3%
Priority	887	4.6%	\$ 4,634	4.8%
<b>Standard</b>	<b>100,942</b>	<b>5.6%</b>	<b>\$18,954</b>	<b>4.6%</b>
Periodicals	9,070	-0.7%	\$ 2,161	-1.4%
Package Services	1,166	3.0%	\$ 2,201	-0.3%
International	852	0.9%	\$ 1,765	4.1%
<b>Total*</b>	<b>211,743</b>	<b>2.7%</b>	<b>\$66,649</b>	<b>1.2%</b>

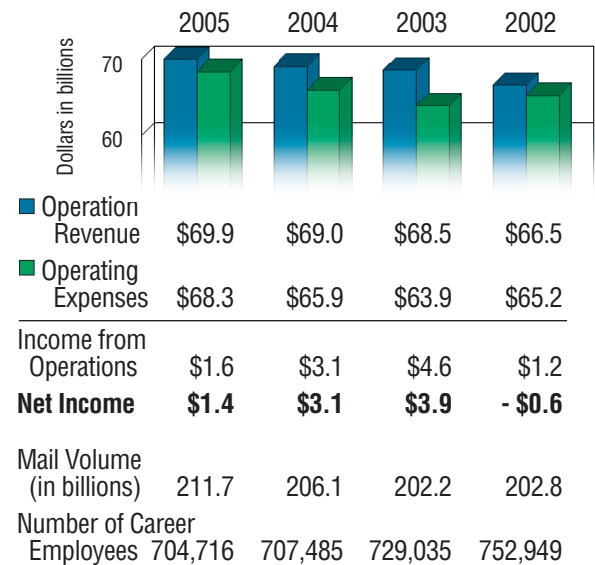
\*Revenue from postage only; also includes smaller items such as Mailgrams and Free Service for the Blind.

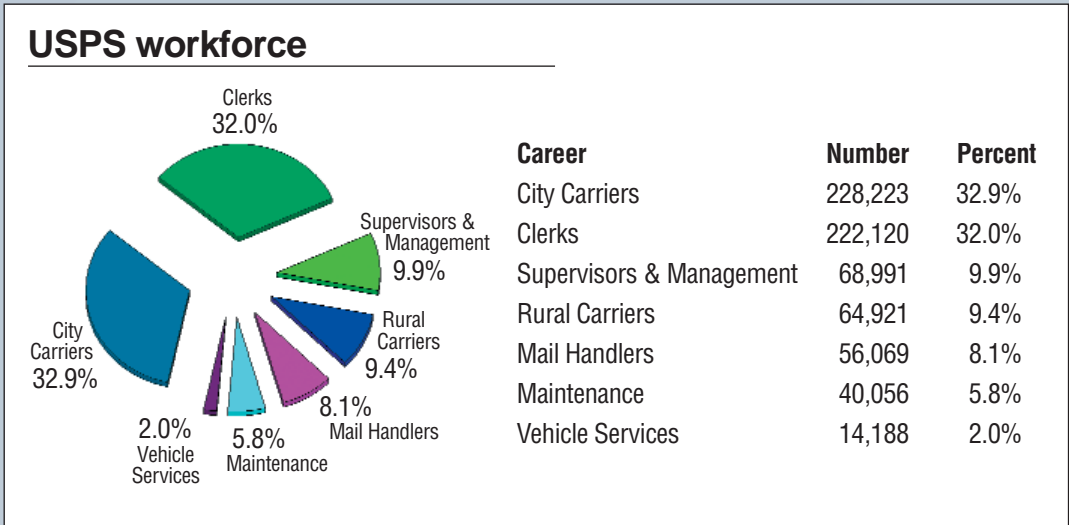
These are tremendous results considering the last rate hike was in 2002—just after the disastrous impact of September 11 and the anthrax attacks. Increases in efficiency and volume kept the USPS profitable late into the rate cycle (*see the financial results table above*).

**Volume**—Volume was strong across the board, as the Breakdown by class table (*above*) shows. Bucking the downward drift of recent years, first class mail increased slightly, while standard mail continued its rapid growth. Priority Mail also was up substantially. Only periodicals declined from 2004, dropping 0.7 percent. Revenue per piece slipped in all categories except international mail.

The shift of the mail mix from first class to standard mail continues. In 2000, 49.8 percent of all mail was first class, with 43.3 percent being standard mail. Today those

## Financial results





numbers stand at 46.3 percent first class and 47.7 percent standard.

The first class mail mix also is changing as workshare volume grows faster than single-piece. In 1999, the mix was approximately 54 percent single-piece and 43 percent workshare. By 2005, this changed to 44 percent single-piece and 48 percent workshare.

**Productivity**—Total factor productivity increased by 1.1 percent in FY2005, which USPS bookkeepers say saved \$749 million during the year. From 1972-1999, productivity rose by an average of 0.3 percent per year, but from 2000-2005 it has been increasing at a rate of 1.7 percent annually.

Productivity increases are driven by growth in volume and delivery points, balanced against decreasing staffing levels. Automation in sorting contributed to the shrinking size of the workforce, along with high levels of overtime.

**Out of debt**—The USPS has eliminated its outstanding debt. At the close of 2001, the Postal Service owed \$11.3 billion, which was reduced to \$7.2 billion by the end of 2003. Today, the debt has been repaid in full.

**Looking ahead**—The Postal Service’s financial standing has been improving annually and it sits in a strong position. However, with the federal government awash in red ink, there are external risks. As many letter carriers recall, during the 1980s and 1990s, Congress and the White House were more than willing to cut the deficit by raiding the Postal Service “piggy bank,” despite the mandate that USPS operate as an independent entity. ☒

# Royal Mail's reign coming to an end as UK's sole post

**F**ive hours before the ball dropped in New York's Times Square to signify the start of 2006, letter carriers across the Atlantic cautiously marked the beginning of the end of Royal Mail's 360-year reign as sole provider of postal services in the United Kingdom.

This transition—a full three years ahead of schedule—is the latest in a string of changes brought on by Britain's inclusion in the ever-expanding European Union. The 25-member federation has formally decreed that by 2009 all national monopolies, including postal services, must be opened to competition. The idea is that businesses will be able to compete more fairly across national borders.

In many ways, the issues facing the British mail system parallel the questions facing the U.S. Postal Service in the context of postal reform legislation, from rate-making to the definition of universal service. As in the United States, there are still unanswered questions about how to secure the financial future and the scope of Britain's post and concern about the accelerated timing of deregulation.

"This is an unnecessary pressure on Royal Mail at a time when it is only starting to recover from significant financial difficulties," said Billy Hayes, general secretary of Britain's Communications Workers Union (CWU). The rest of the EU, he said, is "taking a much more cautious line on competition." (*See the July 2005 Postal Record, pages 4-7, for a review of privatization in the European Union.*)

In the British Parliament, the House of Commons' Trade and Industry Committee has also called the quickened change untimely, considering Royal Mail's ongoing financial struggles, including a pension shortfall estimated at \$7 billion.

Britain's Postal Services Commission, known as Postcomm, which oversees Royal Mail and the deregulation program, began moves to include more competition three years ago when it took steps to open up 30 percent of letter mail to private firms, and welcomed bulk mailers who move batches of 4,000 letters or more to handle their own processing and delivery logistics.

At the dawn of 2006, 14 companies, with Postcomm's blessing, were positioned to chip away at all of Royal Mail's traditional business—everything from single-letter collection and delivery to value-added tracking and business services. For now, though, Royal Mail still controls almost all of Britain's postal business, and remains the only institution—public or private—legally obligated to provide universal service in Britain, Scotland and Northern Ireland.

That universal service is largely subsidized by business mail. The CWU is worried that if competition takes away too much of Royal Mail's business mail services, service to rural areas will suffer. And Royal Mail officials feel it cannot compete on an equal footing with private business mailers because it can't easily tie its rate structure to costs.

Currently, a first-class stamp in Britain costs 30 pence (around 53 cents). Because of Royal Mail's troubles in setting rates, it estimates that it loses about 5 pence (8 cents) per first-class letter delivered. Royal Mail has received approval for an increase next month for first class mail to 32 pence (up 6.6 percent, to 56 cents), aiming toward 39 pence (63 cents) by 2010—increases that it believes would begin to offset actual delivery costs and help stabilize its pension fund. Royal Mail also says a rate increase will help it catch up to other countries in terms of modernizing operations, something that would help it engage in healthier competition with the private firms. For its part, Postcomm supports a "one-price-goes-anywhere" stamp, as well as universal collection and delivery.

There is some concern in Parliament, however, that there could be a shift in how the term "universal" is understood. The legislative body is considering measures to protect the current definition of "universal," including requiring private companies to pay fees to Royal Mail to subsidize the less-lucrative rural and residential deliveries that the new competitors are likely to ignore in favor of business mail opportunities. ✉

