Health benefit pre-funding overshadows USPS profits

The bad news about the Postal Service's latest financial statement is that it cited additional losses—$329 million—for the first quarter of fiscal year 2011 (Oct. 1, 2010 through Dec. 31).

The good news is that if it weren't for the cost of pre-funding future retirees' health care benefits, the Service would have realized a profit of more than a quarter billion dollars. In other words, from an operational standpoint, the USPS made money.

Whether the media and policymakers will understand the difference remains to be seen.

In its first quarter report, the USPS said the sharp decline in mail volume caused by economic hard times is easing. Volume grew by 707 million pieces, or 1.5 percent, compared to the first quarter of last year. However, mail volume remains well below its 2006 peak.

Operating revenue dropped to $17.9 billion, a decrease of 2.6 percent compared to the first quarter of 2010. But costs decreased as well. Operating expenses were $18.2 billion, 2.4 percent less than the first quarter of last year.

The Postal Service is mandated by Congress to set aside more than $5 billion annually through 2016 to pay for future retiree health care benefits. It also was required in 2010 to make an accounting adjustment that changed the value on paper of its workers' compensation liability. Without those changes, the Service said, it would have turned a profit of $226 million this quarter instead of recording a loss.

Last year, USPS reported total losses of $8.5 billion—but without the pre-funding and workers' compensation adjustments, the shortfall would have been a more modest $374 million. In fact, without the pre-funding and workers' compensation adjustment, the USPS would have made a net profit of $837 million since the pre-funding payments began in 2007, even with the recession and Internet competition.

The USPS warned it probably will hit the limit on its line of credit with the U.S. Treasury at the end of this fiscal year, Sept. 30, if Congress does not relieve the pre-funding burden.

"The Postal Service has tremendous business potential in the long run, but Congress has to allow the USPS to use its own money in a businesslike fashion to get over the short-term challenges," NALC President Fredric Rolando said. "We've been a willing partner in helping to cut costs and find new business, but the single biggest problem is that the USPS is forced to put aside billions of dollars of its own money each year under this unusual pre-funding mandate. We are trying to make Congress understand that this burden can be addressed by letting the USPS transfer some of the $50 billion to $75 billion from its overfunded pension account to make the pre-funding payments."

Some media outlets are beginning to get the message about pre-funding. A report in *The Wall Street Journal* about USPS plans to close some 2,000 post offices this year mentions the pre-funding problem as a significant financial issue.

Closing these post offices, which would follow plans to close 491 announced earlier, is intended to drop "unprofitable" facilities from the postal system, most of them in rural areas. But rating post offices as profitable or unprofitable makes little sense because the USPS is a single network providing universal service. The Postal Service must continue to serve customers in small towns and isolated areas. The services provided, and revenue gained, by a given post office always involve the work of employees and facilities across the country, not just that particular post office.

The Postal Service projects $2 billion in cost savings this year, in part through plans to reduce total work hours by 40 million. Those plans could depend on the outcome of current negotiations with the American Postal Workers Union and National Rural Letter Carriers' Association. Work hours dropped by 6.4 million in the first quarter as the number of full-time equivalent employees declined by 3,600.

On the revenue side, Postmaster General Patrick R. Donahoe said several new marketing initiatives may improve earnings this year, including expansion of simplified addressing for business mailers, Priority Mail Regional Rate Boxes, Reply Rides Free, customized cards and the sale of gift cards. ✉