

# USPS Financial Future

Customer Webinar

October 5, 2011



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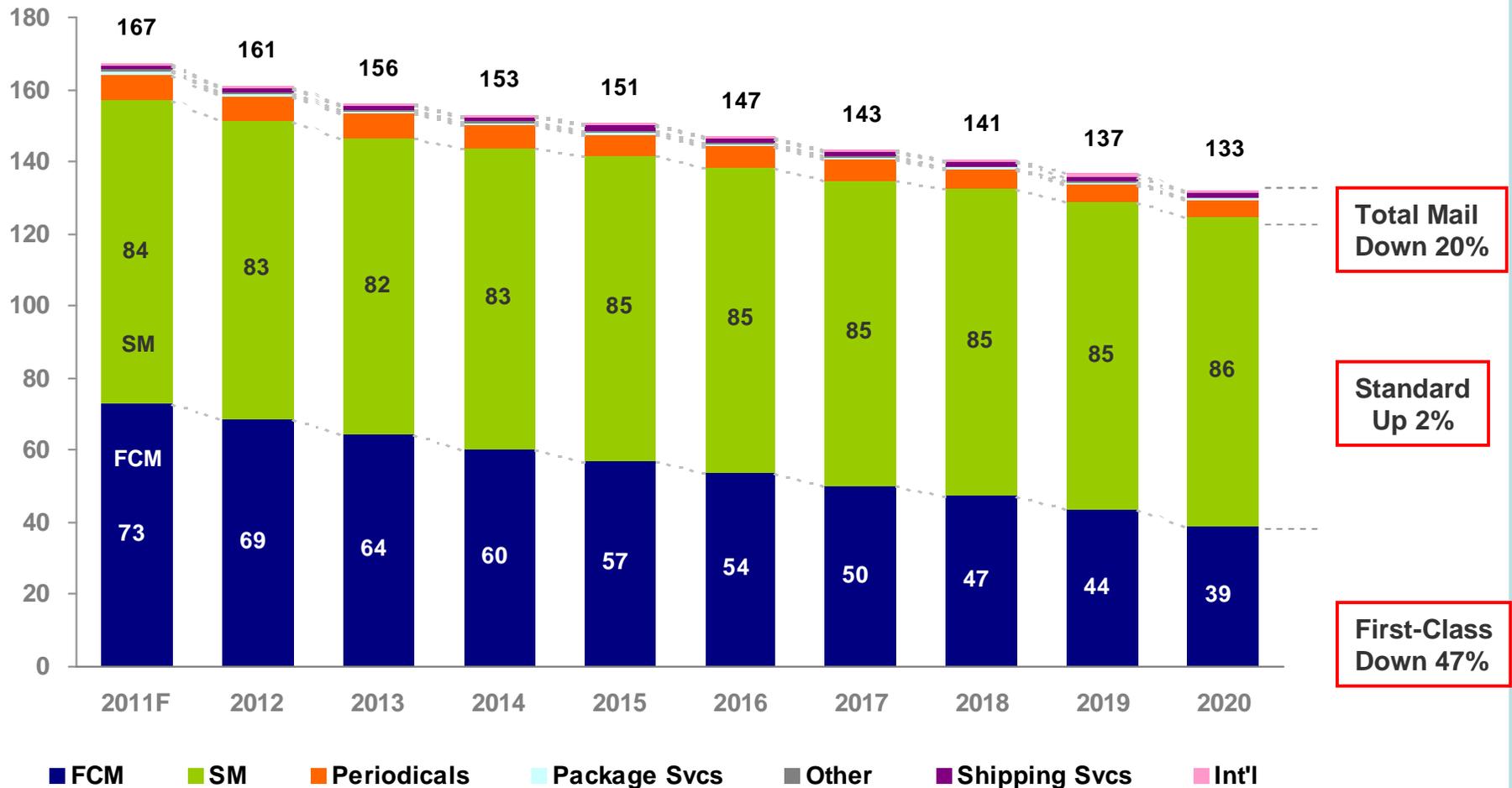
# Present Situation

- Mailing industry employs over 8 million Americans and generates over \$1 trillion each year
- Continual First-Class Mail erosion due to digital/electronic diversion
- Restrictive Business Model
- Enactment of legislation needed by November 18 to avoid default
  - Debt Ceiling Reached at \$15 billion
  - Unable to pay \$5.5 billion Retiree Health Benefit Pre-Payment



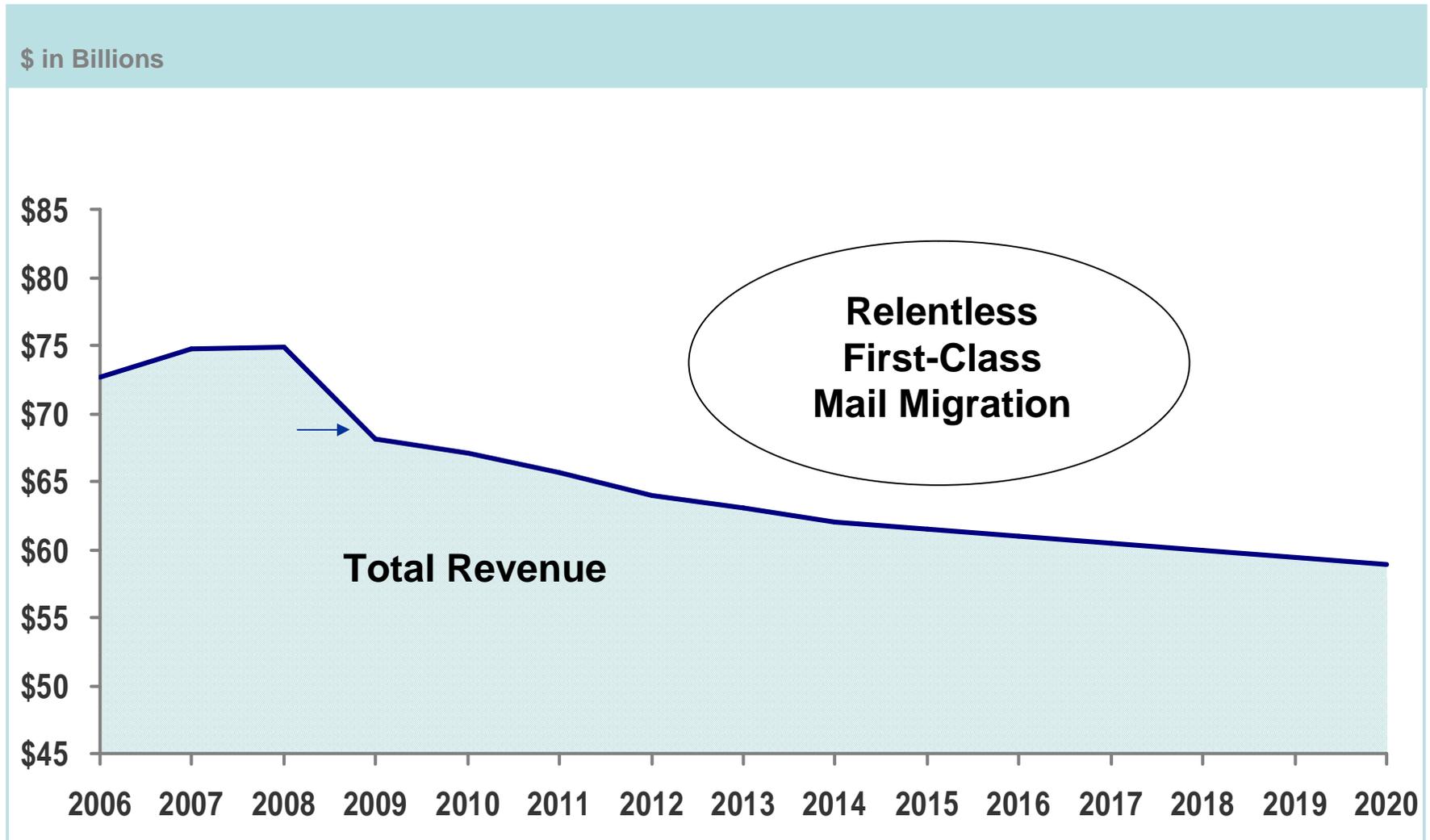
# Volume Outlook

## Volume Billion Pieces





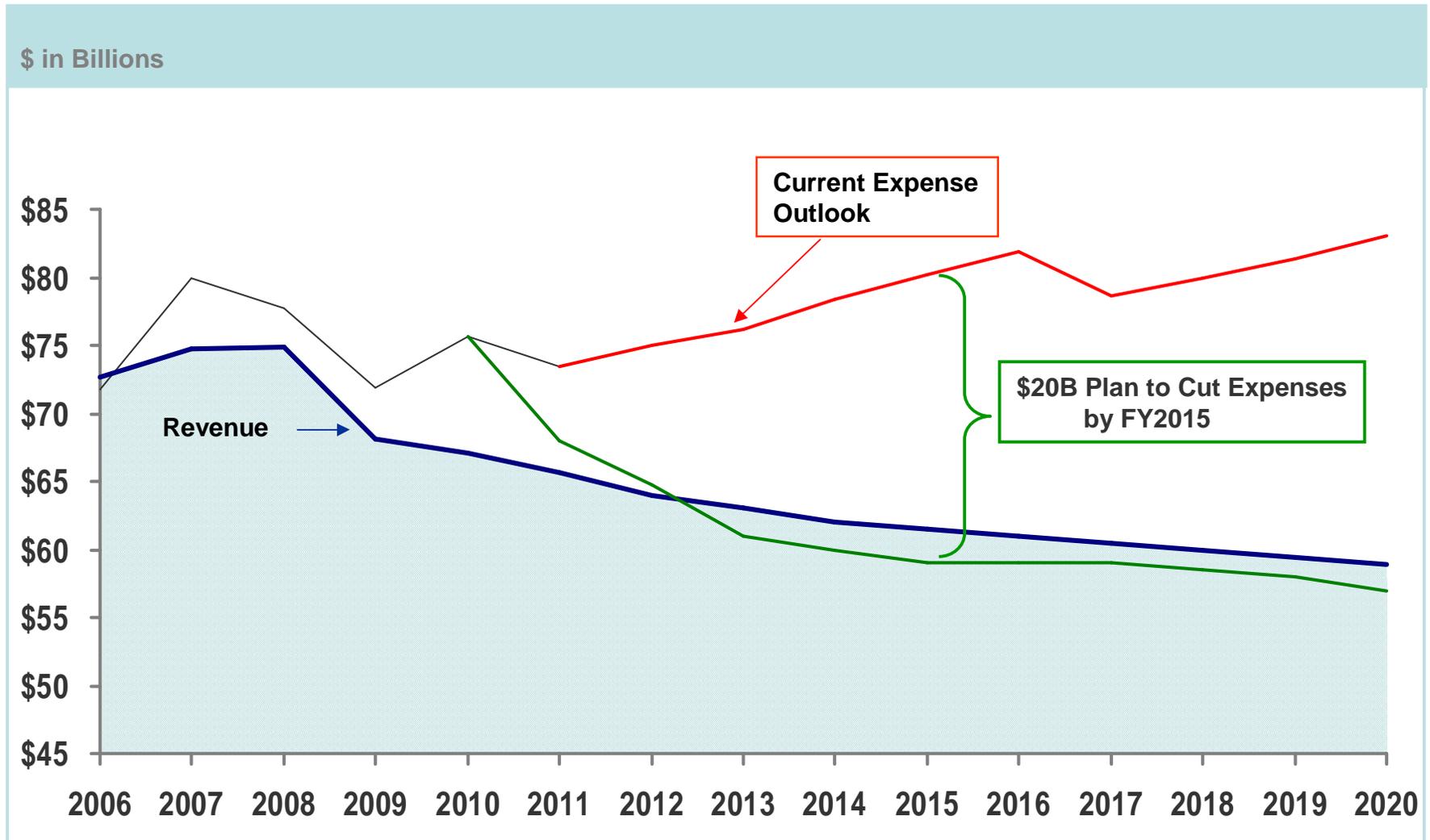
# Reducing Revenues





# Plan to Profitability

## \$20B Cost Eliminated by FY 2015





# Postal Plan to Profitability

## \$20B Cost Eliminated by FY2015

(\$ Billions)	2011	2012	2013	2014	
<b>Revenue</b>	<b>\$ 65.6</b>	<b>64.0</b>	<b>63.0</b>	<b>62.0</b>	
Operating Expenses - Prior Year		67.9	67.0	61.2	
Plus: Inflation (Estimated)		1.6	1.7	1.5	
<b>Current Yr OpEx before Initiatives *</b>	<b>\$ 73.4</b>	<b>69.5</b>	<b>68.7</b>	<b>62.7</b>	
<b>Incremental Pro-Forma Annualized Savings:</b>					<b>Annual Savings</b>
<b>Legislative Changes:</b>					
RHB Pre-Funding Resolved	\$5.5	-	-	-	\$5.5
FERS \$6.9B Refund (per President's Proposal)	-	✓	✓	-	-
Five-Day Delivery	-	-	2.0	1.0	3.0
					<b>8.5</b>
<b>Operations:</b>					
Network: Sortation & Transportation	-	0.5	2.0	0.5	3.0
Retail	-	0.5	0.5	0.5	1.5
Delivery	-	0.5	1.0	0.5	2.0
					<b>6.5</b>
<b>Compensation, Benefits &amp; Non-Personnel:</b>					
Flexibility, Benefits, Wages, Admin, Interest	-	1.0	2.0	2.0	5.0
<b>Total Potential Savings</b>	<b>5.5</b>	<b>2.5</b>	<b>7.5</b>	<b>4.5</b>	<b>\$ 20.0</b>
<b>Current Yr. OpEx After Initiatives</b>	<b>\$ 67.9</b>	<b>67.0</b>	<b>61.2</b>	<b>58.2</b>	
<b>Income/(Loss) * (Excludes FERS Refund)</b>	<b>\$ (2.3)</b>	<b>(3.0)</b>	<b>1.8</b>	<b>3.8</b>	
<b>Net Debt (Includes \$6.9B FERS Refund: '12 &amp; '13)</b>	<b>\$ (11.6)</b>	<b>(10.9)</b>	<b>(5.6)</b>	<b>(1.4)</b>	

\* Operating Expenses exclude Non-Cash Workers' Compensation0

✓ FERS Refunds of \$3.45B in 2012 and 2013 do not permanently reduce expense base



# Key Areas Requiring Legislative Action

- **Delivery Frequency** – authority to go from 6- to 5-Day Delivery
- **FERS Refund** – return \$6.9 billion in overpayments to the Postal Service
- **Resolve the current mandate to pre-fund Retiree Health Benefits** by \$5.5 billion annually and manage legacy cost going forward
  - Transfer CSRS overpayment (\$50 billion), or
  - Allow Postal Service to restructure its healthcare system to make it independent of federal programs – USPS Health Care Program
- **Managing Complement** – allow reductions in bargaining unit postal employees be governed under the Reduction-in-Force provisions applicable to federal competitive service employees
- **Retirement Plan** – allow Postal Service to provide a defined contribution retirement plan for its new hires; can be accomplished via OPM
- **Streamlined Governance Model** to speed pricing and product decisions



# Key Areas Requiring Legislative Action

- **USPS Health Care Plan** – allow Postal Service to restructure its healthcare system to make it independent of federal programs
  - For annuitants, current employees, and future employees
    - Assume responsibility for 100 percent of the post-reorganization liability for retiree health care (\$91 billion, as of the end of FY2010)
    - Assume control of Retiree Health Benefits Fund (\$42.5 billion, as of end of FY2010)
  - **USPS Health Care Program**
    - Maintain benefit choices with consistent alignment between value and cost
    - Simplify plan structure, self-insure
    - Adopt best practices in private sector – pharmacy benefit management, wellness incentives, etc.
    - Establish incentives for Medicare eligibles to fully participate in Medicare benefits



# Legislative – USPS Health Program

## USPS Retiree Health Benefits Elements (\$ in millions)

Scenario	Assumptions	2013 Actuarial Liability	2013 Assets	2013 Unfunded Liability
Current Law	Continued participation in FEHBP and declining workforce. No prefunding payments in 2011, 2012, 2013	\$106,930	\$49,330	\$57,600
USPS Health Plan in 2013 (Element 1)	New USPS Health Plan beginning January 2013. Required accounting method change.	\$91,875	\$49,330	\$42,545
	Improved healthcare purchasing.	\$88,200	\$49,330	\$38,870
USPS Health Plan in 2013 (Element 2)	Includes Element 1, and fully integrated with Medicare Parts A, B, & D	\$72,415	\$49,330	\$23,085
USPS Health Plan in 2013 (Element 3)	Includes Elements 1& 2, but with retiree contributions frozen at current levels, plus inflation.	\$61,511	\$49,330	\$12,180
USPS Health Plan in 2014 (Element 4)	Includes Elements 1, 2, & 3, but with USPS contributions frozen for future retirees.	\$52,106	\$49,330	\$2,776

# President's Plan for USPS Reform

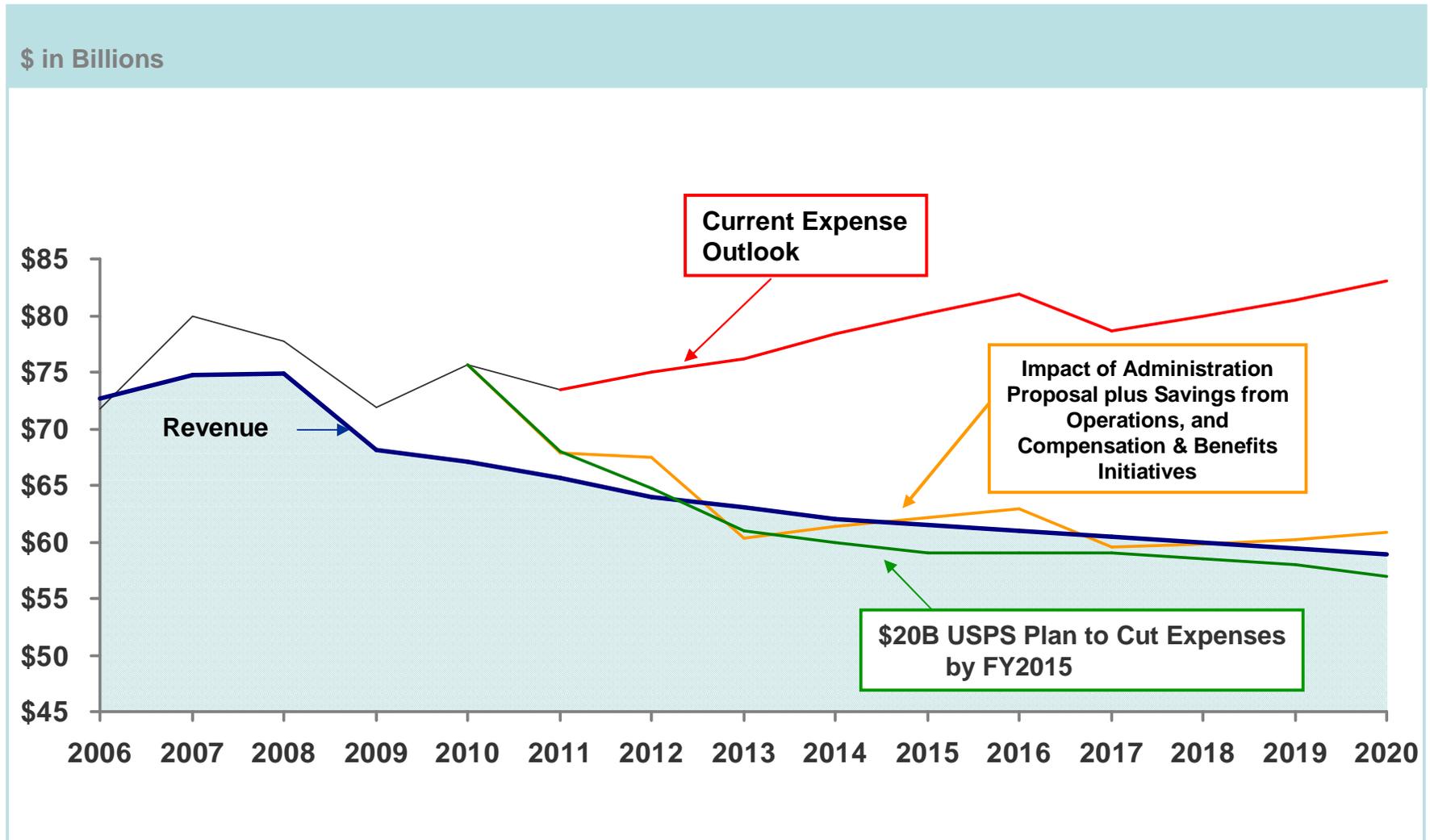


# President's Plan for USPS Reform

- Restructure retiree health benefit pre-funding to reduce near-term postal payments
- Provide USPS w/ refund over 2 years of \$6.9 billion surplus contributed to Federal Employee Retirement System
- Reduce USPS operating costs by giving USPS authority to reduce mail delivery from 6 to 5 days
- Allow USPS to increase collaboration w/ state and local governments; e.g. non-postal products, acceptance of beer and wine in the mail
- Give USPS ability to raise postage rates above current price cap



# Administration Proposal and USPS Planned Operations and Benefits Actions





# Focus on Revenue Generation

- We are continually pursuing new revenue by creating innovative products and building upon existing services.
- Shipping Growth is a major focus:
  - Expanded package services
  - International reach
  - Increased Scanning
  - Easy to use Returns Solutions
- New Direct Mail Services
  - Simpler, easier access through Every Door Direct Mail
  - Hybrid Solutions using the Direct Mail Hub
  - Incentives to use Barcode technology such as QR Codes
- Adding Value to First Class Mail
  - 2<sup>nd</sup> oz Rides Free
  - Customized Picture Permit

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