Mailers Hub News

May Summary *From the May 8 and 22 issues*

***USPS Issues Report on 10-Year Plan***

On April 27, the Postal Service released its *Second Year Progress Report* about the ongoing implementation of Postmaster General Louis DeJoy’s 10-Year Plan. Not surprisingly, the agency gave itself very high marks and reported that implementation was on track. In an accompanying press release, the USPS listed its achievements:

* Aligned for Operational Excellence.
* Positioned to Financially Break Even Over Next 10 Years, Despite Inflation.
* Fostering Service Excellence for the American People.
* Converting 125,000 Employees to Full-Time Positions.
* Modernizing Our Delivery and Processing Network.
* Increased Daily Package Processing Capacity to 60 Million.
* Updating and Electrifying the Nation’s Largest and Oldest Federal Fleet.

The agency also acknowledged other “milestones”:

* Enactment of the Postal Service Reform Act (April 2022)
* Implementation of new service standards for select Market Dominant and Competitive products
* Judicious implementation of new pricing authority
* New offerings to expand package delivery, including USPS Connect

Elsewhere in the glossy 33-page report the USPS praised its performance delivering COVID test kits and during the election season as well as its ongoing work to update its IT infrastructure. In conclusion, the agency listed eleven areas in which its work would be continuing, including perhaps the most financially beneficial – reapportioning its obligations to the Civil Service Retirement System which could “eliminate CSRS amortization payments and save the USPS $2-3 billion per year and up to $34.6 billion over 10 years.” (That would about halve the remaining losses the Plan initially projected.)

Readers of the report quickly realize that its informative value is overshadowed by the same purposes of all USPS communications nowadays: to control the message, and to (again) adulate The Plan and describe its components and their implementation in the most favorable light – all of its elements are unquestionably good and USPS customers should accept that as fact.

Unfortunately, to the chagrin of the PMG and his publicists, not everyone agrees. Claiming aggressive semi-annual price increases are “judicious,” obsessing over gaining packages while ignoring the loss of core market-dominant volume, alleging improved service based on incomplete measurement, and adding cost by increasing career employment while volume decreases, are not what many outside the USPS would consider praiseworthy achievements.

USPS Challenges PRC Inquiry into Ten-Year Plan

In an unprecedented challenge to the authority of the Postal Regulatory Commission, the Postal Service has moved that the commission “reconsider” its April 20 order initiating a public inquiry into Postmaster General Louis DeJoy’s 10-Year Plan (Order No. 6488, *Notice and Order Initiating Public Inquiry Associated with the Delivering for America Plan*, PRC Docket No. PI2023-4, April. 20, 2023). In simple terms, the USPS is claiming the PRC has no authority to conduct the inquiry and so should close the docket. In its motion, the Postal Service states

“... Order No. 6488 purports to initiate a forum to explore the inner workings of the Postal Service’s strategic plan, *Delivering for America* (‘Plan’), but fails to identify a statutory basis that would establish the Commission’s authority for this unprecedented level of review and oversight. No such basis was identified because no such basis exists. ... The Commission lacks authority to initiate this Docket. The Postal Service, therefore, respectfully requests that the Commission reconsider and withdraw Order No. 6488, as it is based on a material error of law.”

In its argument, the USPS says there’s no “specific statutory provision authorizing a wholesale public inquiry into the Plan.” The Postal Service is not so politely telling the PRC to stay in its lane and not try to *regulate* the USPS.

“Through the plain language of 39 USC § 3653(d), the statute clearly limits the Commission’s role in reviewing plans and reports to those created by the Postal Service under Sections 2803 and 2804 only. ... As such, the Commission’s oversight of these matters under Section 3653(d) does not extend to the Plan.

The motion was signed by the Postal Service’s general counsel, suggesting that he, and likely the PMG, were significantly piqued at the PRC’s boldness and, by extension, at the mailing industry for urging the commission to open the docket.

The Postal Service has been clever in how it’s presented and implemented the 10-Year Plan. By socializing the document as simply a statement of strategy, then disaggregating its functional components into mere “initiatives,” the USPS has sought to avoid giving the commission (or the public) something specific on which to base an inquiry.

Though examining the wisdom of a plan can be reasonably considered without having every detail of its implementation defined, the Postal Service has used the opposite argument to proceed to implement the many aspects of the Plan piecemeal, fully aware that doing so lets its work “fly under the radar” at an operational level too low to merit official regulatory scrutiny.

For its part, the PRC has been criticized for being too passive, and being hesitant to exercise its role as a regulator. Opening the inquiry docket was a clear departure from such behavior, and obviously an unpleasant surprise for the Postal Service which, itself, had become increasingly confident that it could operate without any significant interference by the commission. The PMG has often complained about PRC oversight, so his agency’s response to the inquiry docket likely reflects his anger at the commission (and the industry) potentially asking questions he doesn’t want to answer.

OIG Evaluates USPS Retirement Fund Investment

A recent report by the Postal Service’s Office of Inspector General has shown that the current restriction on how USPS retirement funds can be invested is leaving billions of dollars on the table. Issued April 26, the white paper, *Historical Analysis of USPS Retirement Fund Returns*, detailed how allowing investment in traditional securities could yield significantly greater returns. As the OIG explained:

“Career Postal Service employees participate in one of two main defined benefit pension programs for federal workers: the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). In addition, eligible Postal Service employees can remain enrolled in the Federal Employees Health Benefits program, which provides employer-sponsored group health insurance, after retirement. The Postal Service Retiree Health Benefits Fund (PSRHBF) holds funds for Postal Service retirees enrolled in the program. At the end of fiscal year (FY) 2022, the Office of Personnel Management (OPM) estimated that the Postal Service’s retiree assets in these three plans totaled $298 billion.”

The OIG noted that if legal restrictions were relaxed, a different investment strategy could significantly improve the funds’ balances:

“To better understand how diversifying retiree investments might impact the Postal Service, the OIG compared actual historical fund returns of the Postal Service’s retirement funds to a simple hypothetical investment portfolio consisting of 40% US investment-grade bonds and 60% US stocks. This fund allocation represents a balanced mix of less volatile bonds with more volatile stocks. The analysis was conducted in partnership with Segal Marco Advisors, a firm with expertise in actuarial science and pension plan management. The OIG estimated that CSRS, FERS, and PSRHBF would all have higher balances today if their assets had been invested in the alternative portfolio. Across the three funds, the OIG estimated total retirement assets of $1.2 trillion, with the following breakdown:

1. **CSRS:** If funds were invested in the 60% stock portfolio in FY 1972, the estimated balance was $878 billion, or 7.1 times the current value.
2. **FERS:** If funds were invested in the 60% stock portfolio in FY 1988, the estimated balance was $240 billion, or 1.8 times the current value.
3. **PSRHBF:** If funds were invested in the 60% stock portfolio in FY 2007, the estimated balance was $74 billion, or 2.1 times the current value.”
4. To some observers, it’s curious that, with hundreds of billions potentially available to more than top-up the fund balances, the Postmaster General’s 10-year Plan doesn’t include seeking the necessary legislative changes. Though the Plan does include seeking changes to how the CSRS fund’s unpaid liability is calculated, that issue would be moot if the fund were enriched from more profitable investments.

PQ II Results Highlight Worsening Volume Loss

Following the May 9 meeting of the Postal Service’s Board of Governors, the USPS released its *Form 10-Q* for the second quarter of fiscal 2023 (January 1 through March 31). Though Postmaster General Louis DeJoy barely mentioned it in his official remarks, the figures in the report show a worsening loss of volume and equally weak revenue growth.

Despite two price increases since the end of PQ II of FY 2022, the results for PQ II this year showed a decline in revenue for both the quarter and the year to date. The 2.45% decrease for PQ II more than offset the small (0.97%) increase in PQ I to yield a net decline of 0.68% so far for FY 2023.

Though the price increases in July 2022 and January 2023, totaling over 10.7% (or over 14.7% for “underwater” classes), should have resulted in significantly more revenue, the concurrent loss of volume resulted in the opposite outcome. Though revenue from First-Class Mail and Periodicals was marginally higher (up 0.53% and 0.45%, respectively) Marketing Mail revenue dropped by 4.3%. Volume in all categories fell from PQ I levels, down 9.36% for the quarter and 6.94% for FY 2023 to date. (The volume loss in PQ I was 4.76%, suggesting an accelerating decline in volume.)

Given the PMG’s emphasis on growing package volume as a strategy to improve USPS finances, the PQ II numbers for that segment are concerning – most categories were down from PQ II/FY 2022, and the totals for revenue and volume both declined (down 2.08% and 5.02%, respectively). Despite this clear downward trend, the USPS still claimed the results “reflect our successful efforts to compete.”

Unlike the lower figures for revenue and volume, the numbers for expenses were higher, suggesting measures to control costs aren’t working. Despite using 2.4% fewer workhours during PQ II, and 2.5% fewer for the YTD, compensation costs still increased 2.1% for PQ II and 3.5% YTD.

Overall higher costs, coupled with an adverse $1.8 billion swing in the workers compensation liability, drove the bottom line to a net loss of $2.48 billion for the quarter, and $3.508 billion for the year-to-date. Even omitting the workers comp liability, the net year-over-year quarterly loss would still be greater for PQ II/FY 2023.

***USPS Debuts Service Performance Dashboard***

On May 19, after months of preparation, the USPS launched the service performance dashboard that it was required to implement by the *Postal Service Reform Act of 2022*.

Though complying with the statutory mandate, the agency did not make its new dashboard conspicuous or easy to find. The three major pages – USPS.com, PostalPro.usps.com, and About.usps.com – have nothing to indicate the dashboard’s existence or where to find it. Moreover, anyone selecting the About.usps.com page would have to next select the “what we do” drop-down, then “performance,” before seeing a “service performance results” icon that connects to yet another page where a low-key button finally links to the dashboard.

The USPS presents visitors with quick access to information about its products and services – and, of course, the Postmaster General’s 10-Year Plan – but placing the dashboard several levels down in the navigation of one of three available sites likely reflects the agency’s standing unwillingness to make granular service data easily accessible. Once there, users can only select service data for a single five-digit ZIP Code, not a broader area, such an entire 3-digit service area, as might be useful to a commercial mailer. On the “service performance results” page, the USPS also chooses to show First-Class Mail scores for overnight, 2-day, and 3-to-5 day service, rather than broken out into 3-day, 4-day, and 5-day data as is reported to the PRC. Similarly, Marketing Mail is not segmented by processing or rate category, only by “destination entry” or “end-to-end.”

Regardless of how the data is sliced, how any of the reported data is calculated, and what mail may be excluded from the underlying measurements, is not stated, again reflecting the Postal Service’s attitude toward service reporting: there are the numbers it has to present – users can figure out where they came from and what they mean.

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