

Achieving Financial Stability Without Excessive Rate Increases: A Review of the USPS Strategic Plan “Delivering for America”

EXECUTIVE SUMMARY

July 2021

Earlier this year, the U.S. Postal Service (“USPS”) released “Delivering for America,” a 10-year plan to reach financial stability and improve operational performance after years of posting net losses and service disruptions. The plan includes a series of strategic initiatives intended to help the USPS increase revenues and contain costs by—among other things—securing legislative and regulatory changes that would allow for a more sustainable operating structure.

While most of these initiatives align with USPS’s vision and mission, raising rates above CPI does not. This action ultimately hurts, not helps, USPS customers and the USPS bottom line. In order to reach financial stability in the long term, USPS should focus on maximizing revenue not by excessive rate increases, but by taking actions to minimize volume declines, such as maintaining consistent rates and striving for high service standards. Our analysis shows that USPS can achieve financial stability without raising rates excessively and without the proposed August 2021 rate increases.

Key findings of the study are below.

- 1. The strategic initiative to raise market dominant rates above CPI does not align with USPS mission and vision.** Of all the strategic initiatives included in “Delivering for America” nearly all align or mostly align with USPS’s mission and vision of offering world-class service while achieving financial stability. One initiative that does not align is its initiative to raise rates above CPI. Significant rate increases reduce the predictability of prices for USPS customers, deter use of USPS services, and induce further volume declines.
- 2. Predictable, low rates retain USPS customers and improve volume performance; sharp rate increases exacerbate volume declines.** According to 2017 survey, the single most important action USPS could take to keep mailers using mail is to provide stability in pricing. Similarly, one of the top barriers for businesses sending communications to customers and prospects via the USPS was concerns about future rate increases. Predictable and low rates will protect the USPS customer base. In contrast, sharp rate increases will lead to steep volume declines. For example, from FY2015 to

FY2018 greeting card volume was growing. However, after a 10% rate increase was implemented in FY2019, all volume gains were erased and volume declined 10% below FY2015 levels.

3. **Year-to-date USPS and economic performance have outpaced USPS expectations and should be recognized in its 10-year projections.** The USPS 10-year projections in “Delivering for America” are unreliable because the assumptions used for the base year, FY2021, are no longer accurate. The projections were created while there was still significant uncertainty about the economy and COVID-19. As a result, USPS economic drivers used are understated. For example, USPS expected 0.3% growth in GDP, but actual GDP growth, as of Q1 2021, was 6.4%. Additionally, USPS’s market dominant volume declines are overstated. USPS fiscal year-to-date performance has recorded 7.7 billion more market dominant pieces and has generated \$3.2 billion more in operating revenue than projected.
4. **We estimate USPS will reach 121 billion market dominant mail volume and \$42 billion in market dominant revenue in FY2021.** We analyzed historical quarterly data to estimate FY2021 year-end volume and revenue. For FY2021, we estimate market dominant mail and services volume will reach 121 billion, compared to 117 billion estimated by USPS in “Delivering for America.” With this additional volume, we estimate that market dominant products will generate a total of \$42.3 billion in revenue by FY2021 year end, compared to USPS projection of \$39.4 and \$39.6 billion for its Base Case and Strategic Plan scenarios, respectively.
5. **Our alternative 10-year projection scenarios show that USPS can become financially stable without raising rates above CPI.** We created three alternative 10-year projections that keep most of assumptions of the USPS strategic plan in place, but update FY2021 base year data and volume assumptions based on historical data. In all scenarios, USPS would generate more revenue over time and become financially stable without raising rates for market dominant products above CPI. Our three scenarios are structured as follows:
 - a. Scenario 1 uses our updated market dominant volume with a 1.5% annual rate increase, USPS’s projected competitive volume, and higher controllable costs than USPS projected.
 - b. Scenario 2 uses our updated market dominant volume with a 1.5% annual rate increase, USPS’s projected competitive volume, and USPS projected controllable costs.
 - c. Scenario 3 uses our updated market dominant volume with a 1.5% rate increase, higher than USPS’s projected competitive revenue, and higher than USPS projected controllable costs.

In total, these scenarios would generate a surplus ranging from \$1.8 billion to \$22.1 billion over 10 years. (Figure E.1)

Figure E.1.
New Scenarios Compared to USPS Base Case and Strategic Plan Net Income Projections

Total Net Income FY2021-30



Annual Net Income FY2021-30

