Statement by

James E. Millstein

Chief Executive Officer

Millstein & Co.

before the

Committee on Homeland Security and Governmental Affairs

United States Senate

January 21, 2016

Introduction

Chairman Johnson, Ranking Member Carper, members of the Committee, thank you for the opportunity to testify on the current status and possible restructuring alternatives for the United States Postal Service ("USPS" or the "Postal Service").

I have spent the entirety of my thirty-four year professional career – as a lawyer, banker and public servant – in the restructuring business. I have participated in the design and implementation of the restructuring of public companies as diverse as American Airlines and Charter Communications in the United States, Cadillac Fairview in Canada, EuroDisney and Marconi in Europe, and Daewoo Corporation in Korea. During the recent financial crisis, I served as the Chief Restructuring Officer of the US Department of the Treasury. In that role, my primary responsibility was the design and implementation of the restructuring of the Department's TARP investments in each of AIG and Ally Financial. Although there were many doubters at the time, in each of those cases, taxpayers not only recovered the substantial sums they invested to keep those companies from collapse, but also earned significant profits.

In addition, as some of you may know, my firm is currently working with the Commonwealth of Puerto Rico, assisting it in the development of both a fiscal adjustment plan to right size its budget and a debt restructuring plan to restructure its debt.

I am here today because the Postal Service is in trouble, requiring both an operational and financial restructuring to restore its ability to meet its obligations in the ordinary course of business and to deal with the challenges of a very rapidly changing market for its products and services. Since Benjamin Franklin served as the first Postmaster General in 1775, the Postal Service has played an essential role in U.S. commerce and communication, but today's Postal Service faces market, technological and regulatory challenges that Ben Franklin could not even have imagined. Some of these challenges require immediate fixes; others can be handled in more deliberate fashion – after further study and public debate. But no one should leave this hearing today thinking that immediate action can be deferred: the Postal Service is in imminent danger of running out of money as a result of an antiquated pricing structure that has left it without adequate revenues to cover its operating costs and a statutorily-imposed financial burden that it cannot possibly meet.

I. History of the USPS and the origin of the Mailbox Monopoly and the Universal Service Obligation

In 1970, Congress passed the Postal Reorganization Act, establishing the U.S. Postal Service as a self-supporting independent agency with an official "monopoly" on physical mail delivery. The USPS funds its operations through the sale of postage and postal products and services, with minimal appropriations from the U.S. Government.[1] The requirement to deliver all mail to and from the entire population of the U.S. and military personnel living abroad at uniform prices (rates are based solely on weight, not distance) is called the universal service obligation ("USO"). The USO covers all types of physical mail (from postcards to packages) but the Postal

[1] The U.S. Government appropriates approximately $90 million per year (~0.1% of the USPS's operating budget) to fund mailing service for blind citizens, as well as absentee ballots.

Service's ability to set prices so as to cover all of its costs of maintaining a nationwide delivery network has been severely constrained. The 2006 Postal Accountability and Enhancement Act ("PAEA") broke its mail products into two broad categories as to which two separate pricing regimes were imposed: Competitive Mail (e.g., Priority Mail, First-Class Package) and Market-Dominant Mail (e.g., First-Class Mail, Standard Mail). The 2006 Postal Accountability and Enhancement Act defines the two categories as follows:

> The market-dominant category of products shall consist of each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products. The competitive category of products shall consist of all other products.

While it may have been debatable whether the Postal Service had monopoly power in any of its product markets in 2006, the extent and diversity of products and services that compete with First Class and Standard Mail in 2016 put into serious question whether the Postal Service has any monopoly power at all. If it doesn't have any such power, then the entire premise of current regulation needs to be seriously rethought, as the regulatory constraints on its product pricing and operational flexibility may be slowly but surely choking the Postal Service to death. Therefore, a question for further but urgent study is whether the regulatory structure created under the PAEA has outgrown its utility and should be replaced with a more flexible system. Moreover, in an era of widely-available internet connectivity and nationwide mobile communications networks, just what sort of "universal service" should be required of a physical mail delivery service needs to be re-examined. That said, in the short term and while those important issues are being studied, it is equally clear that Congress must act to ensure that the USPS has enough liquidity and financial flexibility to manage its vast operations, invest in its businesses, and address the overhang of its legacy liabilities in a commercially reasonable manner.

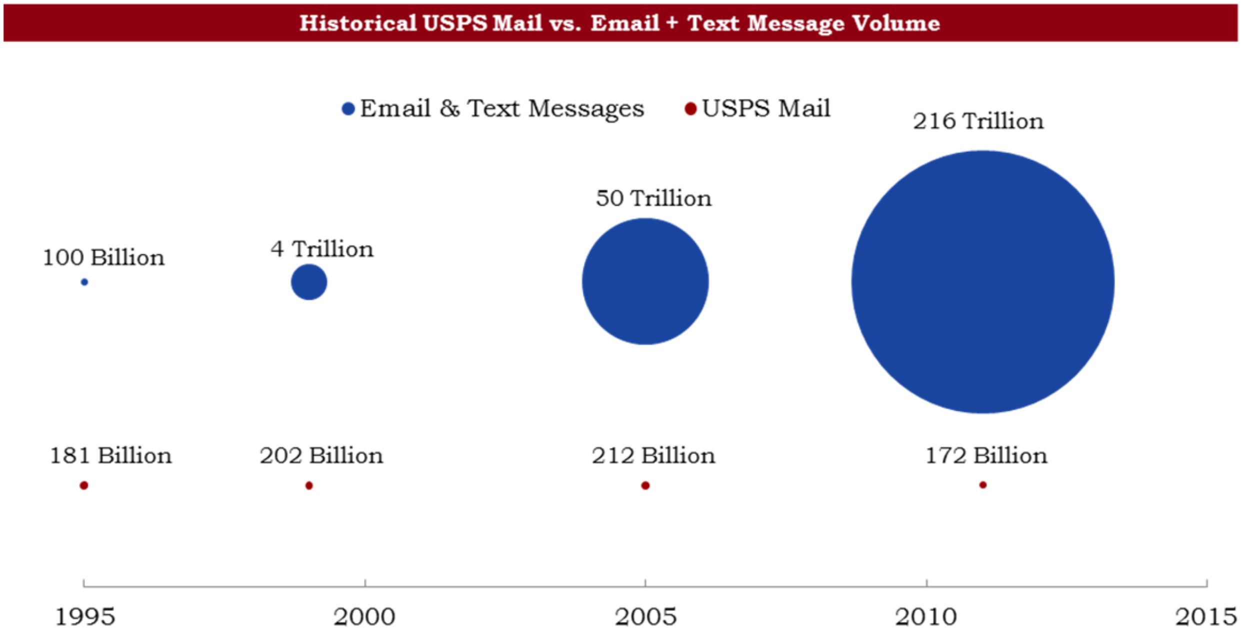
II. <u>A New World</u>

a. ***<u>Digital Alternatives See Exponential Growth</u>***

Since its invention in 1978, e-mail has grown exponentially, while traditional mail volume has remained static. Advertisers are directing money away from direct mail advertising in favor of e-mail campaigns, residents are choosing to receive bills via e-mail, and businesses are communicating more each day via e-mail. According to a recent study, over 200 billion e-mails are exchanged every day, more than the total physical mail volume delivered in a year.[2] As the popularity of e-mails, texts, instant messages, and other digital forms of communication continues to grow, physical mail volumes have started to decline. In 1970, when Congress passed the Postal Reorganization Act, the USPS had a monopoly on the "mailbox," but with the advent of email and other messaging technologies, the mailbox outside our doors and in our apartment houses are no longer the only, let alone most used, mailboxes in our lives. As people

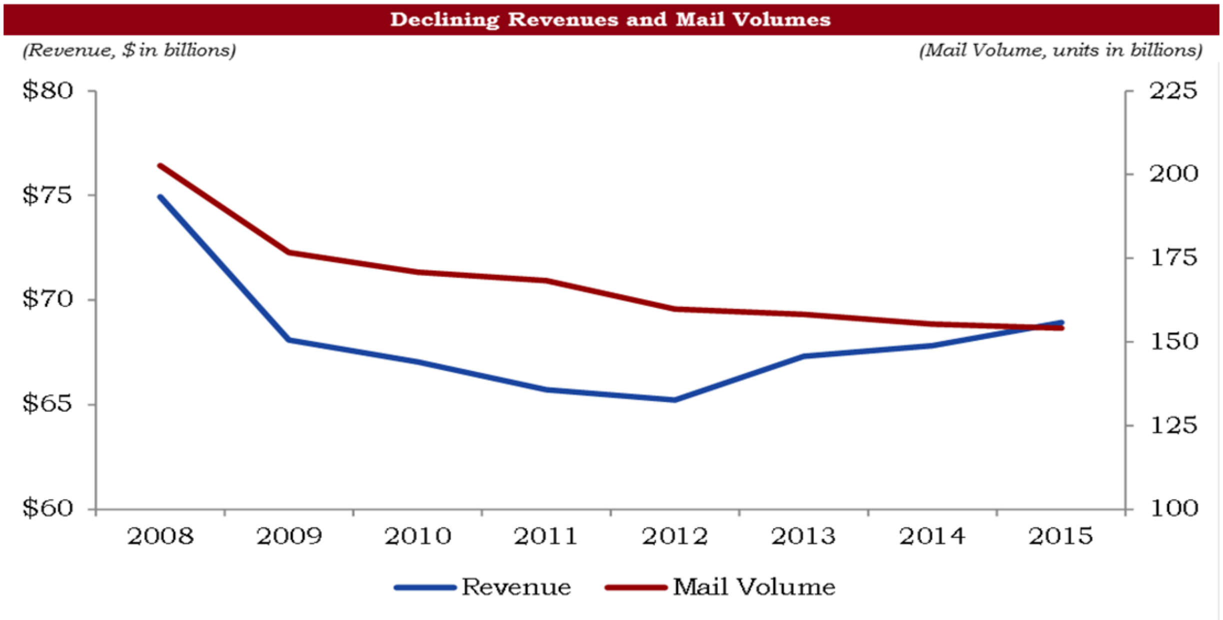
[2] Source: Email Statistics Report, 2014-2018, Radicati Group, Inc.

and businesses substitute alternative methods of electronic communication for physical mail delivery at an increasing rate, Congress really needs to re-evaluate whether the USPS continues to have a “monopoly” of any sort in any of its product markets, whether it really can raise prices at will without accelerating its volume losses, and if it cannot extract such “monopoly rents,” whether the threat of “cross-subsidization” of its product offerings in markets where it already has well developed competition (i.e., the package business) is more imagined than real.



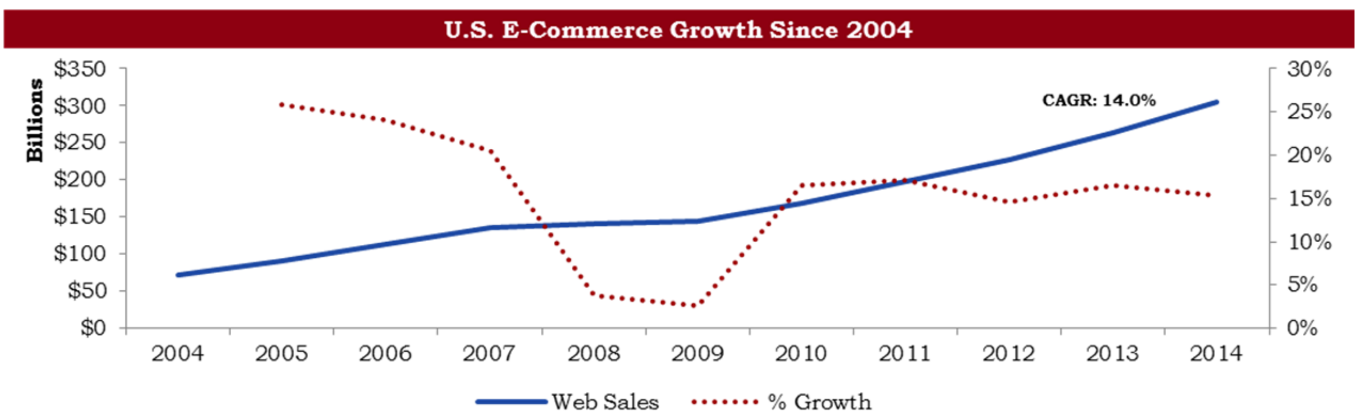
b. <u>Decline in First Class and Standard Mail Volumes</u>

While the growth in digital substitutes is reshaping the definition of the “mailbox,” physical mail volumes continue to decline, down 24% in total since 2008. Coupled with this overall decline in volumes, as a result of economic and population growth, the USPS has been forced to add several million delivery points since the Great Recession. As a result, the number of items delivered per point per day, a measure of network density, has decreased approximately 31% in total since 2007. Moreover, as businesses transition to more highly targeted electronic advertising channels, Standard Mail volumes have dropped. These trends have resulted in lower unit volumes across a larger operating footprint and have stressed the USPS business model to the point where significant change is required.



c. ***E-Commerce growth***

As more Americans are shopping online, the demand for fast, affordable, and reliable delivery options has become paramount to the future growth of the USPS. This paradigm has caused the USPS revenue mix to shift: as Market-Dominant Product volumes continue to decline, Competitive Products, notably the Shipping and Packages segment, have exhibited strong growth. Shipping and Packages revenue represented ~22% of total USPS revenue in FY 2015, up from ~14% in FY 2008. This growth has been fueled by online sales and the USPS competitive advantage (vis-a-vis UPS and FedEx) in being able to provide "last mile" service for e-commerce fulfillment.

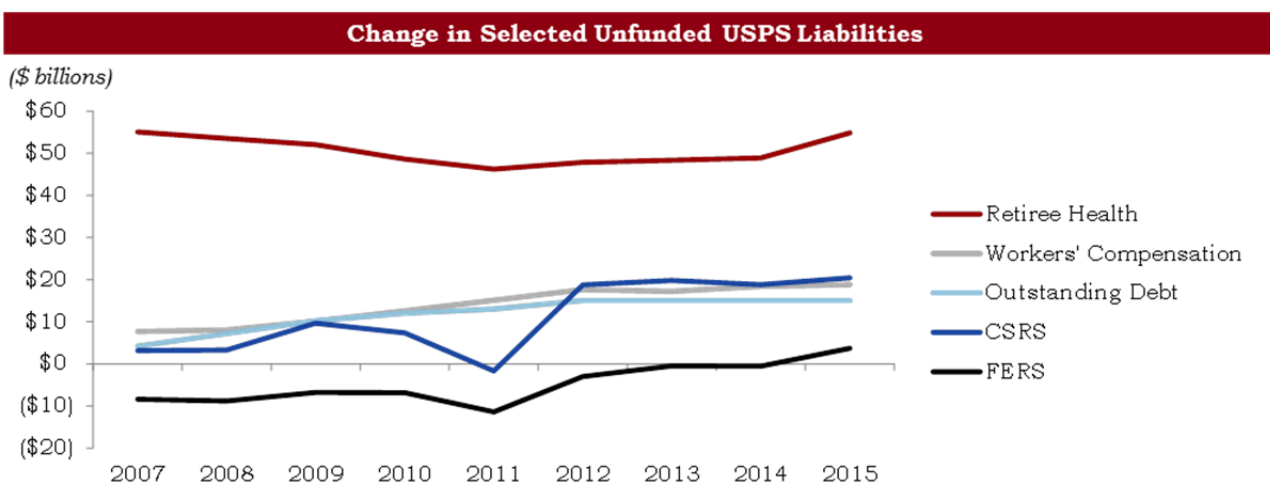


III. USPS challenges

a. *Pension and OPEB costs*

The 2006 Postal Accountability and Enhancement Act requires the USPS to pay into the Postal Service Retiree Health Benefits Fund ("PSRHBF"), which covers employee healthcare benefits. Congress created the retiree health benefits fund to supplement the Civil Service Retirement System ("CSRS") and the Federal Employee Retirement System ("FERS") – both of which are paid into by the USPS. Under the PAEA, the Postal Service was required to pre-fund 100% of its then estimated $50+ billion unfunded benefit liability (for benefits required to be paid over the next 75 years) in ten $5+ billion annual installments, rather than allowing the USPS to continue to fund retiree health benefits on a "pay as you go" basis, a basis followed by most private business and the Federal Government in the balance of its retiree health care plans. Under the PAEA, the USPS is the only government entity required to pre-fund its retirees' health benefits, a requirement that has (not surprisingly) placed tremendous pressure on the USPS's liquidity.

Of the ten annual $5 billion prefunding installments imposed on the USPS, the USPS made the first three such payments (2007 to 2010) and defaulted on each of its annual required pre-funding payments since 2011. The PAEA also requires the Office of Personnel Management ("OPM") to calculate the remaining unfunded liability in 2017 and develop an initial 40-year amortization payment schedule for its defeasance. Given the ongoing defaults, as of September 30, 2015, the PSRHBF is projected to be $54.9 billion under-funded based on an accumulated health benefit retirement obligation of $105.2 billion. Given its current liquidity profile, there is little chance that the USPS will make any of the remaining $5 billion installment payments required under PAEA.



b. *Inability to set rates*

In addition to imposing significant and unprecedented post-retirement health care benefit pre-funding requirements on the USPS, the PAEA increased government oversight of its pricing policies, on a product-by-product basis, based on a now clearly outdated view of the USPS's ability to extract "monopoly rents" from its first class and standard mail products to the disadvantage of its ratepayers and its competitors and potential competitors in the package space. So, rather than allow the USPS to vigorously compete on price with the market share leader in the package space, United Parcel Service, or the price leader in the overnight shipping space, FedEx, the PAEA places the USPS at significant competitive disadvantages against these now dominant players in the package space. The USPS must also receive congressional approval to make any structural changes to its operating model, changes that might allow it to become a more vigorous competitor to the dominant players in the package space and a more cost efficient operator in its so-called Market Dominant Products.

Despite the fact that the USPS is the only organization legally allowed to access American mailboxes, the cost to USPS of this "privilege," given the regulatory constraints placed on its ability to competitively price its products and optimize its operations, probably exceeds its benefits. Products governed by the regulatory pricing constraints account for ~76% of USPS revenue, making it difficult for the USPS to offset its cost increases with price increases. The Postal Service provides a public service, but the government assumption that the "mailbox monopoly" offsets the cost of the USO seriously limits the USPS ability to achieve and maintain a self-sustaining business plan.

In 1970, when the Postal Reorganization Act was enacted, and well before the explosion of alternative electronic communication media with which the first class letter now competes, Congress might have been justified in assuming that the USPS "mailbox monopoly" far offset the cost of the universal service obligations imposed on it. However, given the dramatic rise of alternative methods of electronic communications, I believe this is no longer the case. In their 2015 Annual Report to Congress, the Postal Regulatory Commission valued the benefit of the "mailbox monopoly"[3] at approximately $5.4 billion per year, versus the cost of USO of approximately $4.1 billion per year. While the PRC believes the value of the monopoly outweighs the cost of the USO, I believe that the value of its monopoly, if any, is eroding quickly with the result that any substantial increase in the prices for First Class or Standard Mail would be met with an immediate and accelerating decline in its volumes. Which is to say, because of the plethora of competing electronic communication and advertising media, the USPS no longer has pricing power in its so-called Market Dominant products. Therefore, the regulatory regime under which Market-Dominant product rates are governed needs to be completely rethought because without any ability to generate sufficient revenue to cover its costs, the universal service mandate imposes costs on the USPS that it is unable to recover. A business that cannot recover its costs is a business that will not be in business very long.

*c. <u>**Service requirements**</u>*

The USO in the U.S. is defined as follows: "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people."[4] While the U.S. interpretation

[3] Defined as the sum of the Postal Monopoly ($4.61 billion) and Mailbox Monopoly ($770 million).
[4] Defined in 39 U.S.C. 101(a).

of the USO (which requires uniform pricing regardless of distance) might be economically feasible with high mail volume and limited geographic scope, it is difficult to maintain with declining mail volumes in a geographically expansive country like the United States. It costs significantly less to send a letter across town than across country, but the universal service obligation does not recognize this distinction in terms of service requirements or price.

d. Liquidity constraints/debt limits

Given the operational and pricing inflexibility and the financial burdens placed upon it under the PAEA, the Postal Service has operated at a net loss for the past eight years and faces extremely tight liquidity. Although the USPS is regarded as a self-sustaining institution, Congress has permitted the USPS to borrow from the Federal Financing Bank, a division within the U.S. Treasury that provides loans to government entities at low rates. By law (39 U.S.C. 2005 (a)), the Postal Service's debt cannot exceed $15 billion, a threshold it reached in 2012. Having insufficient cash flow from operations to meet its health care prefunding obligations under PAEA, the USPS borrowed from Treasury to do so. Without access to incremental credit, the USPS then defaulted on its subsequent prefunding obligations, leaving it now with $15 billion of debt that is due to Treasury and $33 billion of prefunding obligations in default or soon to be in default.

IV. Path Forward

For all of the reasons stated above, the USPS faces significant challenges to its short and long-term viability and will require legislative reform and an operational transformation to survive in the new markets in which it now operates. Unfortunately, there is no "silver bullet" that will fix the USPS. I believe that a staged approach is the most reasonable path towards viability. There is an immediate need to stabilize the business and shore up its liquidity, and a long-term need to allow the USPS to become a sustainable business capable of meeting the challenges of the new marketplace in which it operates. Meeting each of these needs requires Congressional action.

a. Short Term Issues

i. Install Flexible Pricing Mechanism

Before PAEA was enacted in 2006, the USPS was entitled to charge rates for its services that would provide it with sufficient revenues to cover its projected costs. Under this system, the USPS generated healthy cash flow. The PAEA replaced the legacy pricing system with a pricing system that caps price increases at the rate of inflation (CPI-U) and increases government oversight in the rate-setting process.

The passage of the PAEA in 2006 was followed by the Great Recession, which had a significantly negative impact on the mailing industry, causing volumes to plummet from ~212 billion pieces in FY 2007 to ~160 billion pieces in FY 2012. This steep decline pressured the USPS liquidity profile, and caused the USPS to borrow more heavily from the Federal Financing Bank, up to the mandated $15 billion limit.

Prices for each class of Market-Dominant products are set so that the sale of each product will not only cover its attributable costs, but also contribute to the USPS institutional costs, which are highly inflexible and largely independent of mail volumes. As mail volumes decline and institutional costs rise, the USPS has been unable to adjust pricing fast enough to ensure that all of its costs are covered.

The negative impacts of the Great Recession had a lasting impact on the USPS. Section 39 U.S.C. § 3622(d)(1)(E) of the US Code allows the Postal Service to raise prices for its Market-Dominant products above the rate of inflation to recapture revenue lost "due to either extraordinary or exceptional circumstances" so long as recapturing such revenue is necessary to allow the Postal Service to provide needed services to the public[5]. In an order dated September 30, 2010, the Postal Regulatory Commission agreed that the Great Recession of 2009 was in fact an exigent circumstance, yet denied the USPS request for the exigent rate increase as the USPS did not sufficiently link its losses to the Recession. The USPS renewed its request in September of 2013 with econometric data supporting a reduction in ~190 billion mail pieces attributed to the Recession during the five-year period following the Recession, accounting for $25.7 billion in forgone contribution to its institutional costs.

On December 24, 2013, the PRC issued an order concluding that the Great Recession had only caused the USPS to lose 25.5 billion pieces of mail volume (vs. the ~190 billion cited by USPS) and that the USPS was entitled to collect up to $3.2 billion in additional revenue via an exigent rate increase of 4.3%. These numbers were determined using a methodology that the USPS has, and is currently, disputing.

The USPS filed an appeal requesting additional relief under the exigent rate increase and, on July 29, 2015, it was announced that the exigent rate could remain in place until USPS realized an additional $1.4 billion in revenue. The USPS continues to appeal the PRC's calculation of revenue lost attributable to the Great Recession but, absent a successful appeal, the exigent rate increase will expire in April 2016 and the price permitted to be charged for Market-Dominant products will decline causing a significant negative impact on USPS revenue and liquidity. Since enactment of the exigent rate increase in 2013, the USPS has generated positive cash flow from operations (before pre-funding charges) in amounts less than the exigent rate increase's revenue contribution (i.e. operating cash flow would have been negative absent the exigent rate increase).

The first order of business to fix the USPS should be to avoid the expiration of the existing exigent rate increase in April 2016 and making that rate increase permanent so as to allow the Postal Service's revenues to cover its operating costs. This initial reform should be followed by a repeal of the inflation-capped pricing mechanic in favor of a more flexible pricing system to ensure that the USPS can price its products so as to generate enough revenue to cover its costs.

[5] Source: http://www.savethepostoffice.com/sites/default/files/USPS%20Exigent%20Brief%201:4:16.pdf.

ii. Rationalize Employee Expenses and Legacy Liabilities

Second, to normalize the USPS's balance sheet, Congress must acknowledge that the pre-funding of the USPS retiree health care liability as mandated by PAEA imposed a financial burden on the Postal Service that it simply could not meet. As in the private sector and across the rest of the Federal Government, funding of these types of long term liabilities is typically done on a long term basis, rather than in a series of lump sums as was required by PAEA. The Postal Service's largest financial hurdles are its unfunded pension, post-retirement healthcare benefits, and workers compensation liabilities. A restructuring of these obligations needs to be implemented so as to restore the ability of the USPS to meet its obligations in the ordinary course of business and make investments in its business necessary to sustain it for the long term over which these liabilities need to be discharged.

First, Congress should permit the Postal Service to use actuarial assumptions for the calculation of its benefit funding and pre-funding obligations in a way consistent with the practices employed in the private sector.

Next, Congress should permit the USPS to fully integrate both current and future employee health care benefits with Medicare immediately. Integration would require that all Medicare eligible annuitants and dependent spouses enroll in Medicare Parts A and B, waiving late enrollment penalties for all such persons. The shift to Medicare would permit the USPS to cease prefunding payments under the PAEA. After integration with Medicare, the Office of Personnel Management would determine the amortization schedule and a calculation of the USPS's healthcare benefit liability using actual claims experience, a practice that is consistent with actuarial and accounting standards. Implementation of Medicare integration would provide the USPS relief from the prefunding payment obligation imposed on it under PAEA while ensuring that USPS's obligations to its current and future retirees are respected.

Since 1984, the Postal Service and its employees have contributed $29 billion to Medicare, making it one of the program's largest contributors. By switching to Medicare and away from the Federal Employee Health Benefits Program, the Postal Service could save approximately $34 billion over the next ten years.[6]

iii. Reschedule Balance Sheet Liabilities

If the USPS balance sheet were viewed through the same lens as a private sector company, it would undoubtedly be viewed as insolvent. Current liabilities of $49 billion (including pre-funding payments and short-term debt) are over 6.0x greater than current assets of $8 billion, and as a whole, the balance sheet indicates a $50 billion net worth deficiency (that is, its total liabilities exceed its total assets by $50 billion). This deficiency excludes the unfunded pension, and retiree health benefit liabilities that, when included, doubles the net deficiency to over $100 billion.

---

[6] Source: Executive Summary – USPS Legislative Proposal: Full Integration of USPS Health Care Benefits with Medicare

Medicare integration would eliminate the USPS's current liability for the prefunding of its long term health care obligations, and a restructuring of its loan from the US Treasury to extend its maturity and provide for an amortization schedule over a term of years would immediately restore balance between its short term assets and liabilities.

See Appendix 2: Illustrative Balance Sheet Restructuring for more details

b. Long-Term Issues

i. Develop New Business Plan

Once the USPS's short term finances are stabilized by the restructuring of its long term healthcare liability and its liability to the Federal Financing Bank, Congress must face the reality that the Universal Service Obligation imposes costs on the USPS that it cannot fully recover under the current regulation of its pricing and product offerings. In order to compete in the modern marketplace in which it operates, the USPS must be allowed to have pricing flexibility and to develop new lines of business to deal with the panoply of competitors it faces both in its so-called Market-Dominant Products and in its Competitive Products. Congress should require that the Postal Service perform a de novo review of its service offerings unbridled by its historical mandates and existing regulatory constraints to develop a business plan that allows it to generate sufficient cash flow over the long term to meet its Universal Service Obligation without the need for taxpayer subsidies. Developing such a business plan is an essential first step in executing the restructuring required to ensure its long-term viability.

The USPS may unlock value by conducting a review of its current network. A modernized business plan will create opportunities to rationalize its asset base and produce liquidity via sales of non-core assets. Aligning its network size and its service schedule to anticipate ongoing trends in its product volumes is an essential aspect of any successful restructuring.

The Postal Service should also look to optimize its existing national footprint and focus on profitable business lines to support its national network. The Shipping and Packages division has grown at an over 5% compounded annual growth rate since 2008 and will continue to grow as online retailers and other business shift towards an electronic marketplace and away from brick and mortar stores. If given the flexibility by Congress, the USPS could use its existing offices and open locations for package warehousing and late night pick-up. By holding packages, local branches would increase foot traffic and could open the possibility for new revenue generating services to be sold out of its post offices.

ii. **Explore Privatization Model**

In developing a long-term business plan, the USPS may consider privatization as a possible alternative. The privatization model has been successfully employed in many countries including Germany, Japan, and Italy.

A successful operational and financial restructuring could pave the way to a privatization transaction that could give the USPS access to public debt and equity markets, following the precedent set by Poste Italiane and Japan Post. As with those transactions, privatization would minimize the possibility of the need for any future subsidies from taxpayers and could provide the Federal Government with a significant dividend from the sale of the equity of the USPS in the public markets. Proceeds from an IPO could be used to fund (or repay the USG for funding) the significant restructuring costs that will be incurred in transforming the USPS into a viable, self-sustaining enterprise.

See Appendix 1: Privatization and the Universal Service Obligation for more details

V. **Conclusion**

The USPS is facing a myriad of challenges in declining volumes, increased competition, and looming legacy liabilities. Without the pricing and operational flexibility to adapt to the changing marketplace, the USPS has been set up to fail.

I am here today to stress that, absent swift and significant changes to the business and the statutory framework governing the USPS, the Postal Service will not be able to continue to operate as a self-sustaining government entity and will require on going assistance from the U.S. Government and further subsidies from taxpayers.

VI. Appendix 1: Privatization and the Universal Service Obligation

Japan maintains a universal service obligation through a flexible business model over a small geographic region. Japan Post, the designated USO provider, must collect mail from post boxes seven days a week and deliver it six days a week to the entire population without discrimination at the lowest possible rate. Furthermore, Japan Post's other services, such as banking and life insurance, cross-subsidize unprofitable routes required under the universal service obligation. Japan Post has the flexibility of delivery services through convenience stores, thereby enabling delivery 24 hours a day, seven days a week without significantly increasing operating costs. In November 2015, Japan Post Holdings, along with Japan Post Bank Co. and Japan Post Insurance Co, which represent the country's largest bank and insurance company respectively, raised over $11 billion in a public offering. Leveraging national infrastructure, international posts can offer banking and financial services at the minimal additional costs.

Similar to its Japanese counterpart, Poste Italiane, the national post of Italy also maintains a USO and has conducted an initial public offering in recent months. Poste Italiane must guarantee mail delivery to all addresses within Italy and mail collection no less than five times a week, while BancoPosta, its banking arm, cross-subsidizes this public service. BancoPosta's services include collection of public deposits, payment services, foreign currency trading, loans, investment, insurance, mutual funds, logistics, internet access, and mobile phone services. The cash bleeding mail business only accounts for 15% of total revenue, while insurance and financial businesses encompass the remaining 85%. In October 2015, the Poste Italiane SpA sold shares to the public, valuing the company at $10 billion. Poste Italiane, as well as Japan Post, highlight that countries can achieve an economically viable postal service with a robust universal service obligation when granted the necessary flexibility to succeed.

VII. Appendix 2: Illustrative Balance Sheet Restructuring

$ in Billions	**Current Balance Sheet**	**Including Off-Balance Accounts**	**A**	**B**	**C**
Assets					
Cash	$6.6	$6.6	$6.6	$6.6	$6.6
Other Current Assets	$1.3	$1.3	$1.3	$1.3	$1.3
Current Assets	**$7.9**	**$7.9**	**$7.9**	**$7.9**	**$7.9**
CSRS Fund Balance		$179.2	$179.2	$179.2	$179.2
FERS Fund Balance		$107.6	$107.6	$107.6	$107.6
RHB Fund Balance		$50.3	$50.3	$50.3	$50.3
Other Long-Term Assets	$16.1	$16.1	$16.1	$16.1	$16.1
Total Assets	**$24.0**	**$361.1**	**$361.1**	**$361.1**	**$361.1**
Liabilities					
Retiree Health Benefits	$28.1	$28.1			
Short-Term Financial Debt	$10.1	$10.1	$10.1	$10.1	
Other Current Liabilities	$10.7	$10.7	$10.7	$10.7	$10.7
Current Liabilities	**$48.9**	**$48.9**	**$20.8**	**$20.8**	**$10.7**
Long-Term Financial Debt	$4.9	$4.9	$4.9	$4.9	$15.0
CSRS Actuarial Liability		$199.6	$199.6	$199.6	$199.6
FERS Actuarial Liability		$111.3	$111.3	$111.3	$111.3
Retiree Health Obligations		$77.1	$105.2	$55.2	$55.2
Other Long-Term Liabilities	$20.6	$20.6	$20.6	$20.6	$20.6
Total Liabilities	**$74.4**	**$462.4**	**$462.4**	**$412.4**	**$412.4**
Net Deficiency	**($50.4)**	**($101.3)**	**($101.3)**	**($51.3)**	**($51.3)**
Amount Unfunded					
CSRS		(20.4)	(20.4)	(20.4)	(20.4)
FERS		(3.7)	(3.7)	(3.7)	(3.7)
Retiree Health Obligations		(54.9)	(54.9)	(4.9)	(4.9)
Current Ratio	0.2x	0.2x	0.4x	0.4x	0.7x
Assets-to-Liabilities	0.3x	0.8x	0.8x	0.9x	0.9x

Scenario A: RHB Amortization Schedule Extended (included in iPOST and USPS/Mailers/Unions agreement)
Scenario B: RHB Amortization Schedule Extended with Medicare Integration (included in iPOST and USPS/Mailers/Unions agreement)
Scenario C: RHB Amortization Schedule Extended with Medicare Integration and Current Debt Restructuring (see 4(a)(iii) of the testimony for more details on the Current Debt Restructuring)

Current Postal Service Balance Sheet

($ in billions)

Current USPS Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits	$28.1
Other Current Assets	1.3	Short-Term Financial Debt	10.1
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$48.9**
Other Long-Term Assets	16.1	Long-Term Financial Debt	4.9
		Other Long-Term Liabilities	20.6
Total Assets	**$24.0**	**Total Liabilities**	**$74.4**
		Net Deficiency	**($50.4)**

Unpaid PSRHBF Prefunding Requirements

Memo: Unfunded Amounts & Ratios	
Current Ratio[(1)]	*0.2x*
Assets-to-Liabilities	*0.3x*

(1) Calculated as current assets / current liabilities.

UNITED STATES POSTAL SERVICE

Balance Sheet including Other Obligations

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits	$28.1
Other Current Assets	1.3	Short-Term Financial Debt	10.1
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$48.9**
CSRS Fund Balance	179.2	Long-Term Financial Debt	4.9
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations	77.1
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$462.4**
		Net Deficiency	**($101.3)**

Off-Balance Sheet

Off-Balance Sheet

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(54.9)*
Current Ratio (1)	*0.2x*
Assets-to-Liabilities	*0.8x*

Net deficiency increases by ~$50B including off-balance sheet obligations

(1) Calculated as current assets / current liabilities.

Scenario A: RHB Amortization Schedule Extended

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits[1]	-
Other Current Assets	1.3	Short-Term Financial Debt	10.1
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$20.8**
CSRS Fund Balance	179.2	Long-Term Financial Debt	4.9
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations[1]	105.2
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$462.4**
		Net Deficiency	**($101.3)**

Unpaid prefunding payments forgiven and amortization schedule extended

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(54.9)*
Current Ratio[2]	*0.4x*
Assets-to-Liabilities	*0.8x*

(1) Retiree healthcare benefit prepayment amortization schedule extended – prepayment liability moved to long-term liability.
(2) Calculated as current assets / current liabilities.

Scenario B: Retiree Healthcare Obligations shifted to Medicare

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits[1]	-
Other Current Assets	1.3	Short-Term Financial Debt	10.1
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$20.8**
CSRS Fund Balance	179.2	Long-Term Financial Debt	4.9
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations[1]	55.2
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$412.4**
		Net Deficiency	**($51.3)**

Medicare Integration reduces liability by $50B

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(4.9)*
Current Ratio[2]	*0.4x*
Assets-to-Liabilities	*0.9x*

(1) Eligible future and current retirees transitioned to Medicare – RHB obligation reduced $50 billion.
(2) Calculated as current assets / current liabilities.

Scenario C: Financial Debt Rescheduled, RHB Amort. Extended and Medicare Integration

($ in billions)

Illustrative Balance Sheet

Assets		Liabilities	
Cash	$6.6	Retiree Health Benefits[1]	-
Other Current Assets	1.3	Short-Term Financial Debt[2]	-
		Other Current Liabilities	10.7
Current Assets	**$7.9**	**Current Liabilities**	**$10.7**
CSRS Fund Balance	179.2	Long-Term Financial Debt[2]	15.0
FERS Fund Balance	107.6	CSRS Actuarial Liability	199.6
RHB Fund Balance	50.3	FERS Actuarial Liability	111.3
Other Long-Term Assets	16.1	Retiree Health Obligations[1]	55.2
		Other Long-Term Liabilities	20.6
Total Assets	**$361.1**	**Total Liabilities**	**$412.4**
		Net Deficiency	**($51.3)**

Short-Term Financial Debt Rescheduled

Memo: Unfunded Amounts & Ratios	
CSRS	*(20.4)*
FERS	*(3.7)*
Retiree Health Obligations	*(4.9)*
Current Ratio[3]	*0.7x*
Assets-to-Liabilities	*0.9x*

(1) Retiree healthcare benefit prepayment amortization schedule extended – prepayment liability moved to long-term liability and Medicare integration reduces obligation by $50 billion.
(2) Short-term financial debt rescheduled and moved to long-term liabilities.
(3) Calculated as current assets / current liabilities.