Primer on Postal Reform

RISC REPORT

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Executive Summary

The Postal Service Reform Act of 2022 (PSRA), signed into law on April 6, 2022, is the culmination of 11 years of congressional efforts to pass postal reform legislation.[1] The PSRA contains provisions that will impact the Postal Service's finances and operations both immediately and in the long term. The financial provisions will eliminate large unpaid obligations and reduce the size of the Postal Service's annual budget deficit. At the same time, operational provisions will increase transparency and improve the quality of service provided to customers. In this white paper, the U.S. Postal Service Office of Inspector General (OIG) reviews the key provisions of the PSRA and identifies potential opportunities and challenges they present for the Postal Service.

Financial Reforms of the PSRA

The PSRA removes the Postal Service's obligation to prefund retiree health benefits and eliminates all previously imposed prefunding requirements that remain unpaid. The elimination of these unpaid prefunding amounts has already had an immediate impact on the USPS' financial bottom line: financial results for the third quarter of fiscal year (FY) 2022 included a one-time, non-cash benefit of $59.6 billion as a direct result of this PSRA provision. In addition, the Postal Service will no longer have to count billions of dollars of prefunding payments as expenses each year. These liabilities reduced the Postal Service's net income, even if the Postal Service decided not to pay them.

The PSRA's financial provisions are also intended to improve the Postal Service's ultimate financial sustainability. One important provision will require new retirees and their dependents who wish to retain their Postal Service health benefits to participate in Medicare if they are eligible starting in 2025.[2] The Congressional Budget Office (CBO) estimated that this will result in an estimated $5.5 billion decrease in spending on health premiums for Postal Service workers, retirees, and their dependents between 2025 and 2031. These amounts are expected to increase as the share of annuitants required to participate in Medicare grows over time. Effective coordination between the Postal Service and other stakeholders, including the Office of Personnel Management, the Social Security Administration, and the Centers for Medicare and Medicaid Services will be important for successful implementation of this provision. In the longer term, the PSRA's financial reforms will help USPS meet the goal put forward in *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* to achieve financial stability and turn current annual losses into profits.

The PSRA also allows the Postal Service to earn revenues by offering certain non-postal services in collaboration with state/local/tribal governments. Such services could include, for example, enabling customers to obtain or renew hunting or fishing licenses from their local post office rather than requiring a visit to another government office. While revenues from such programs may be relatively modest, the services could provide a tangible benefit to local communities.

Operational Reforms of the PSRA

Operational reforms in the PSRA are intended to increase efficiency, accountability, and transparency. The Postal Service will be subject to additional procedural requirements regarding the establishment of performance targets and will continue reporting on its success in meeting those targets. The Postal Service must make service performance information more accessible through the creation of a publicly available dashboard. The PSRA also requires the Postal Regulatory Commission (PRC) to conduct two reviews that could result in greater efficiency and revised methods for attributing costs to postal products. First, the PRC, in consultation with the OIG, will study the causes and quantify the effects of possible inefficiencies in the collection, sorting, transportation, and delivery of flats mail. The flats operation study must be completed by April 2023 and USPS will have six months from the report's release to develop a Flats Operation Reform Plan. If practicable, USPS will implement the plan following PRC approval and public comment. Second, the PRC

1 117th Congress, Public Law 117-108, An Act to Provide Stability to and Enhance the Services of the United States Postal Service, and for Other Purposes (Postal Service Reform Act of 2022), April 6, 2022, https://www.congress.gov/117/plaws/publ108/PLAW-117publ108.pdf.

2 Employees who turn 64 on or before January 1, 2025, are exempted from this requirement when they retire. Also exempt are current annuitants, those living abroad, Postal Service Medicare covered annuitants and family members enrolled in Veterans Administration coverage or those who are eligible for health services from the Indian Health Service.

will review USPS' cost attribution guidelines, which are used for budgeting, forecasting, pricing, and product decisions, and make modifications if deemed appropriate.

Potential Future Reform Issues

Although the financial and operational provisions of the PSRA are significant, there are previous reform proposals that could be revisited in the future. For example, for over a decade there have been discussions within the postal stakeholder community about the need for a comprehensive review of the Postal Service's universal service obligation (USO). Clearly defining the USO could allow for more precise planning of operational strategies. Another example of a reform that has been considered in the past is a proposal to invest a portion of the Postal Service's retiree health benefits funds in index funds. Currently, retirement investments may only be held in U.S. Treasury securities. Future postal reform efforts could look at the feasibility of diversifying future retiree benefit investments into alternative portfolios, which could lead to higher returns but would also be accompanied by greater risk.

As noted above, while the elimination of prefunding obligations had an immediate and beneficial impact on the Postal Service's bottom line, several provisions of the PSRA are yet to be implemented due to statutorily dictated timelines. These include PRC's operational reviews and Medicare integration. As implementation of the PSRA continues and the impacts are fully realized, Congress and other stakeholders will need to evaluate whether additional reform efforts are necessary to ensure the Postal Service's financial sustainability and continued service for the American public.

Observations

Introduction

The Postal Service Reform Act of 2022 (PSRA) was passed by the 117th Congress with bipartisan support and signed into law on April 6, 2022.[3] Passage of the law was an impressive achievement, as numerous attempts at postal reform legislation failed to pass in the last decade (see Appendix C). While some form of postal reform had been proposed in every Congress since the 112th (2011-2013), none made it to the President's desk.

To better understand the provisions of the PSRA and its implications for the Postal Service, the U.S. Postal Service Office of Inspector General (OIG) reviewed the legislation and spoke with Postal Service executives and industry stakeholders. We sought to identify the PSRA's impacts on the Postal Service in both the short and long term. In this report, we review the financial and operational reforms within the Act and examine what each means for the Postal Service now and in the future. See Appendix A for details of the paper's scope, objective, and methodology.

Financial Reforms of the PSRA

The provisions of the PSRA fall within two broad categories: reforms that will impact the Postal Service's financial standing (Title I), and those that will modify postal operations and reporting requirements (Title II).[4] The PSRA's financial reform provisions will play a critical role in achieving the goals put forward in the Postal Service's *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (DFA). This plan, released in March 2021, seeks to achieve financial sustainability, and turn a projected $23.3 billion loss in FY2030 into a $1.3 billion profit.[5] In particular, the PSRA's provisions integrating retirees into Medicare and eliminating prepayment requirements for retiree healthcare — described further below — were discussed by the Postal Service in the DFA.

While the PSRA is critical to the Postal Service's current plan to improve its financial standing, uncontrollable outside events — such as the recent growth in inflation or a prolonged economic recession — could lessen the PSRA's intended impact. For example, Postmaster General Louis DeJoy said in August 2022 that "inflation has hit the nation hard, and the Postal Service has not avoided its impact. We expect inflation to exceed our expectations by well over a billion dollars against our planned 2022 budget."[6] Despite the sting of inflation, however, the financial provisions of the PSRA have had an immediate and beneficial effect on the Postal Service's bottom line net income and will have longer term impacts on the Postal Service's financial position.[7]

Establishment of the Postal Service Health Benefits Program and Medicare Integration

The PSRA establishes a new Postal Service Health Benefits (PSHB) program for Postal Service employees, annuitants, and their dependents within the Federal Employees Health Benefits Program (FEHB). The new program will be implemented on January 1, 2025.[8] This change, combined with Medicare integration, is projected to result in cost savings for the Postal Service and the U.S. government. New retirees who are eligible to receive Medicare Part B will be required to enroll in Medicare Part B coverage starting in 2025.[9] Medicare Part B covers a range of medical services, including physician and outpatient hospital services. In addition, PSHB plans will be required to provide drug benefits through Medicare Part D for eligible annuitants. The new requirements are similar to those faced by retirees who worked in the private sector or for many state and local governments. Currently, the Postal Service offers healthcare benefits

3 117th Congress, Public Law 117-108, An Act to Provide Stability to and Enhance the Services of the United States Postal Service, and for Other Purposes (Postal Service Reform Act of 2022) ("PSRA"), April 6, 2022, https://www.congress.gov/117/plaws/publ108/PLAW-117publ108.pdf.

4 Appendix B lists and briefly describes the individual financial and operational provisions of the PSRA. Title III of the PSRA is a severability clause which states that should any specific provision of the PSRA be found unconstitutional, the rest of the legislation will be unaffected. Severability clauses are common in multi-part legislation.

5 USPS, *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (DFA), March 2021, p. 7, https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf.

6 USPS, National News, *Postmaster General and CEO Louis DeJoy's Remarks During Aug. 9, 2022 Postal Service Board of Governors Meeting*, Aug. 9, 2022, (*PMG DeJoy's 8/9/22 BoG Remarks*), https://about.usps.com/newsroom/national-releases/2022/0809-pmg-and-ceo-louis-dejoy-remarks-during-aug-9-bog-meeting.htm.

7 For additional information about the impact of inflation on the Postal Service, see USPS OIG, *Inflation and the U.S. Postal Service*, RISC-WP-22-008, August 16, 2022, https://www.uspsoig.gov/sites/default/files/document-library-files/2022/RISC-WP-22-008.pdf.

8 PSRA, §101.

9 *Ibid*. Employees who turn 64 on or before January 1, 2025, are exempted from this requirement when they retire. Also exempt are current annuitants, those living abroad, Postal Service Medicare covered annuitants and family members enrolled in Veterans Administration coverage or those who are eligible for health services from the Indian Health Service.

to its employees, retirees, and their dependents through the FEHB, which is administered by the Office of Personnel Management (OPM).[10] OPM will also administer the new PSHB program.

Unlike federal government agencies that receive appropriations, the Postal Service is ultimately required to fund its retirees' health benefit costs out of its revenues. Prior to the PSRA, Postal Service retirees in the FEHB could elect to enroll in Medicare but were not required to do so. Despite being the second largest federal contributor to Medicare, 24 percent of Postal Service retirees did not enroll in Medicare Part B.[11] Federal retirees with FEHB are not required to enroll in Medicare Part D, which covers outpatient prescription drugs. Medicare integration for retirees is a common arrangement for nearly every state and local government and private sector entity that offers retiree health benefits to Medicare-eligible retirees.

As part of implementing the transition to Medicare, the PSRA requires the Postal Service to establish a program educate employees and annuitants about the program and the options available to them. Postal Service management told us that the specifics of the education program will be determined by forthcoming key OPM decisions about the PSHB program regulations.

USPS Implementation Requirements

In order to implement these provisions, the Postal Service will:

- Work closely with OPM to formally establish the Postal Service Health Benefits Program. OPM has been tasked with issuing the regulations that will shape program implementation by April 6, 2023, in advance of the mandated 2025 rollout. OPM will then administer the program, including contracting with insurance providers to offer postal plans, determining premiums, and calculating USPS contributions to those premiums;
- Establish procedures for annuitants to demonstrate overseas residency. The PSRA exempts postal annuitants living overseas from the Medicare enrollment requirement and it will be the Postal Service's obligation to keep OPM up to date on individuals who demonstrate they qualify for this exemption;
- Implement the Health Benefits Education Program by October 6, 2023, 18 months following enactment of the PSRA. This program will keep current employees and annuitants and their families informed about the postal plans and Medicare enrollment requirements. USPS will coordinate with the Social Security Administration and Centers for Medicare and Medicaid Services to establish and conduct the education program. USPS will also make available "Navigators" — postal employees or contractors — to help individuals understand and enroll in plans; and
- Coordinate with other agencies to establish and implement the funding mechanisms and administrative tasks necessary for enrolling employees in Medicare. The costs of the implementation of Medicare integration will raise costs for the Centers for Medicare and Medicaid Services ($7.5 million), the Social Security Administration ($16 million), and OPM ($70.5 million); USPS will repay these funds to the U.S. Treasury. USPS will also establish an interagency agreement with the Department of Health and Human Services regarding the payment of Medicare late enrollment penalties.[12]

The Congressional Budget Office (CBO) analyzed the economic impact of the proposed changes within the legislation.[13] CBO estimated the PSHB program premiums would be lower than those under other FEHB programs, as Medicare enrollees currently in the FEHB programs would have their healthcare costs covered first by Medicare. CBO estimated a $3 billion

CBO estimated a $3 billion decrease in Postal Service spending on health insurance premiums for current employees and their dependents between 2021 and 2031… [and that] federal spending on health insurance premiums for Postal Service retirees and their dependents will decrease by $2.7 billion over the same period.

10 The FEHB Program became effective in 1960. It is the largest employer-sponsored group health insurance program in the world, covering over 8 million Federal employees, retirees, former employees, family members, and former spouses. OPM, FEHB Handbook, https://www.opm.gov/healthcare-insurance/healthcare/reference-materials/fehb-handbook.

11 DFA, p. 18.

12 Annuitants selecting Medicare coverage after their eligibility date are subject to a penalty. This penalty is a 10 percent increase in premiums for each year the individual could have enrolled but did not. Under the terms of Section 101 of the PSRA, annuitants choosing to move to Medicare during the six-month special enrollment period beginning April 1, 2024 will not be held responsible for this penalty, which will instead be paid on their behalf by OPM from the Postal Service Retiree Health Benefits Fund or directly by the Postal Service itself.

13 CBO is a nonpartisan economic agency providing Congress with independent analyses of budgetary issues relating to proposed legislation.

decrease in Postal Service spending on health benefit premiums for current USPS employees and their dependents between 2025 and 2031. Additionally, CBO estimated federal spending on health benefit premiums for Postal Service retirees and their dependents will also decrease by $2.7 billion over the same period. These savings would be offset somewhat by the Postal Service's responsibility for paying $228 million in late enrollment penalties for Medicare Part B over this period. The total savings from these three items would be approximately $5.5 billion.

Successfully enacting the new PSHB program and Medicare integration by the PSRA's 2025 deadline will be challenging due to the 1.3 million active employees and annuitants involved. For example, the Postal Service will need to develop, implement, and roll out education and training for the participating population. These efforts will likely require additional personnel, funding, and information technology resources.

USPS Fairness Act: Elimination of Prepayment Requirements for Retiree Healthcare

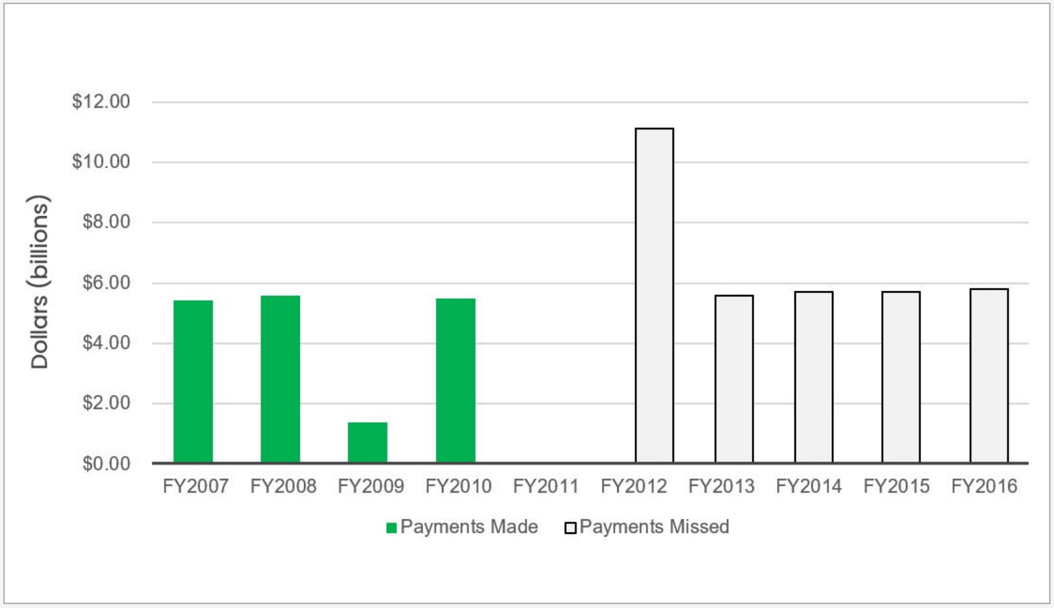
Section 102 of PSRA, also known as the USPS Fairness Act, eliminated the Postal Service's retiree health benefit prepayment requirement instituted by the Postal Accountability and Enhancement Act of 2006 (PAEA).[14] According to one of the PAEA's sponsors, the legislation was passed to modernize the Postal Service to become viable in the electronic 21st century, stabilize mail volume and stamp prices, and restructure the Postal Service's pension formula that was leading to overpayments and higher rates.[15] One provision of the PAEA required the Postal Service to make annual payments into the newly-created Postal Service Retiree Health Benefit Fund (RHBF) between fiscal years 2007 and 2016 to prefund retiree health benefits.

The Postal Service posted an operating profit of $966 million in 2006. Shortly after the passage of the PAEA, however, the United States experienced the Great Recession. The economic downturn and continued movement of customers from physical mail to electronic communications resulted in a severe decline in mail volume. These factors, combined with the PAEA's healthcare prefunding obligations, meant the Postal Service faced increasingly large liabilities on its books. Between FY2007 and FY2010, the Postal Service made $17.9 billion in payments per the PAEA requirements. However, between FY2011 and FY2016, the Postal Service defaulted on $33.9 billion in scheduled payments (see Figure 1). As a result of Section 102 of the PSRA, the Postal Service is no longer obligated to make these payments. However, because the Postal Service has been defaulting on the payments, there has been no effect on USPS's cash flow.

Figure 1. Payments to the U.S. Postal Service Retiree Health Benefit Fund, FY2007–FY2016

Source: Congressional Research Service (CRS), "Funding of Postal Retiree Health Benefits in the USPS Fairness Act," February 11, 2022.

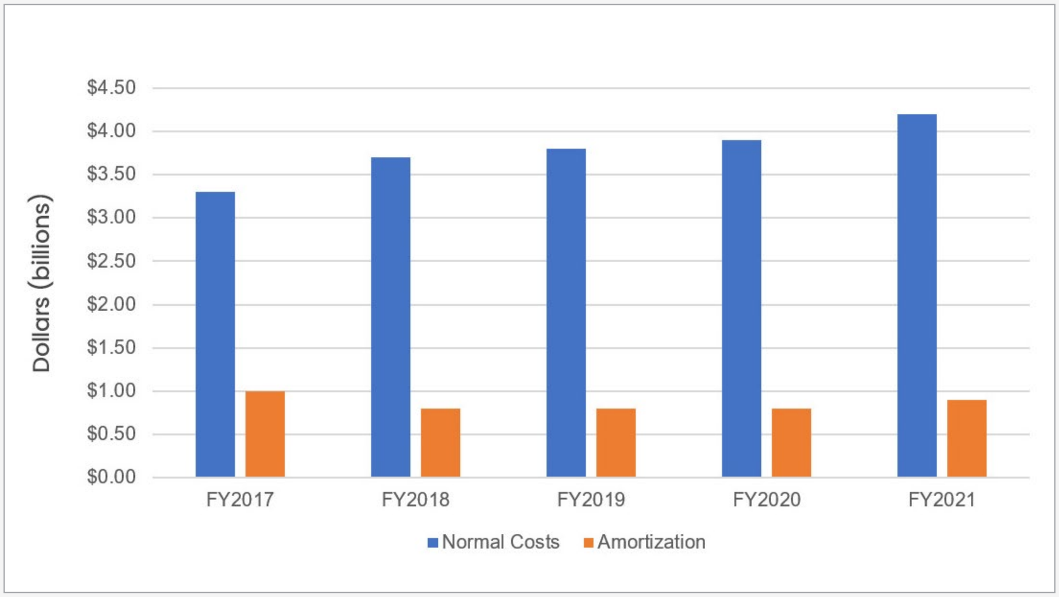
Note: The FY2011 payment was deferred by Congress until FY2012.



14 PSRA §102.
15 *Senate Passes Carper Postal Reform Bill*, Tom Carper, U.S. Senator for Delaware, February 9, 2006, https://www.carper.senate.gov/newsroom/press-releases/null-310/.

Figure 2. Defaulted USPS Normal Cost and Amortization Payments for Retiree Health Benefits, FY2017-FY2021

Source: CRS, "Funding of Postal Retiree Health Benefits in the USPS Fairness Act," February 11, 2022.



Beyond the initial 10 years of retiree health benefit prefunding obligations, the PSRA also cancels all unpaid prefunding requirements for retiree health benefits. Under the PAEA, starting in 2017, the Postal Service was required to make annual payments into RHBF to cover the net present value of future retiree benefits attributable to current employees (known as "normal costs") and annual amortization payments to pay down the unfunded liabilities for retiree health benefits. Since FY2017, USPS missed all its RHBF normal cost and amortization payments, totaling $18.9 billion and $4.3 billion, respectively (see Figure 2). The PSRA eliminates USPS' obligation to make these payments. The net result is the removal of more than $57 billion in unfunded liabilities from the USPS's financial balance sheet.

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The USPS Fairness Act requires the Postal Service to make payments from the RHBF to cover the difference between premium payments paid by the Fund and the cost of annual healthcare claims paid out by postal plans.[16] Scheduled to begin in 2026, these "top-up" payments will be significant — the Postal Service estimated the first top-up payment to be approximately $1.3 billion, and total top-up payments between FY2026 and FY2031 are estimated to be $10.7 billion.[17] OPM estimates that the RHBF will be depleted by 2030 unless USPS makes future payments into the fund. Once the fund is depleted, the Postal Service will revert to a "pay as you go" system. As these payments will be substantial, the Postal Service will need to develop a strategy to cover these expenses.

Postmaster General DeJoy has acknowledged the importance of these impending obligations. In his August 2022 remarks to the Postal Service Board of Governors, he described this provision of the PSRA as "a deferral of our 'pay as you go' portion of our retiree health benefit obligation, thus enabling us to prepare to cover this massive expense that we will be responsible for in a few short years."[18]

USPS Implementation Requirements

In order to implement these provisions, the Postal Service will:

- Make adjustments to account for the elimination of the prefunding obligation and cancellation of unpaid prefunding amounts. To reflect this, USPS implemented GAAP accounting journal entries and other changes to financial reports. As a result, USPS reported a one-time, noncash benefit of $59.6 billion to net income for the third quarter of FY2022; and

16 PSRA §102 (b)(1); Subsection (d)(2) and (g).
17 The Congressional Budget Office had a lower estimate for these payments in its score of the PSRA, estimating the first top-up payment would be $109 million and total top-up payments between FY 2026 and FY 2031 would be $2.3 billion. See Congressional Budget Office, *Estimated Budgetary Effects of Rules Committee Print 117-32 for H.R. 3076…*. Congressional Budget Office, February 4, 2021, https://www.cbo.gov/system/files/2022-02/hr3076_rules.pdf.
18 PMG DeJoy's 8/9/22 BoG Remarks.

- Consult with OPM to help coordinate the implementation of the RHBF top-up payments. These payments are scheduled to begin in 2026.

The elimination of retiree health benefit prefunding and the establishment of the PSHB program will aid in achieving the financial goals of the DFA. The DFA stated that between FY 2007 and March 2021, the Postal Service had accrued $153 billion in retirement-related expenses. In FY 2020 alone, they totaled $11.6 billion, or 14%, of total expenses. Absent legislative changes, the DFA forecasted cumulative net losses for the Postal Service of $160 billion by September 2030. The DFA listed legislative reform as a key aspect in achieving financial stability, allowing the Postal Service to increase its cash flow to cover operating costs and capital investments in facilities and equipment.

Expansion of Opportunities to Offer Nonpostal Services

An additional financial provision of the PSRA was to allow for expanded opportunities for nonpostal governmental services, which are services not directly related to mail delivery, offered by the Postal Service to the public on behalf of state, local, and tribal governments.[19] Under the PAEA, the Postal Service could only offer those nonpostal products or services that were already provided to the public at the time the law was enacted (January 1, 2006) and that the PRC authorized to continue.[20] Grandfathered nonpostal services included Passport Photo Services and the sale of advertising to support change-of-address processing, among others (see Appendix D). While nonpostal services such as Passport Photo Services may be valuable to the public, they do not constitute a significant percentage of the Postal Service's revenue; in FY 2021, competitive nonpostal services generated a net revenue around $90 million compared to an operating revenue of $77 billion.[21]

The PSRA authorizes the Postal Service to enter into agreements with state/local/tribal governments to offer nonpostal services to the public on their behalf, as long as the services are non-commercial, provide a net financial benefit to the Postal Service, do not detract from core postal services, and are offered pursuant to a "program" approved by the Board of Governors. Such services could include, for example, enabling customers to obtain or renew hunting or fishing licenses from their local post office rather than requiring a visit to another government office. The PRC is charged with annually reviewing the Postal Service products and services offered under this provision of the PSRA and determining compliance with these requirements. In the event of non-compliance, the PRC is required to prescribe remedial action to restore compliance.

Although the PSRA authorizes new partnerships with local governments for nonpostal services, it also imposes new cost-coverage requirements on the Postal Service's "program" to furnish property and services to federal agencies. While the Postal Service is authorized to provide property and services to federal agencies, there was no explicit requirement that such arrangements cover their costs prior to PSRA.[22] This provision imposes a new requirement on any program relating to such agreements, under which the Postal Service may need to verify that, on the whole, their ventures with federal agencies provide a net contribution to the Postal Service (defined as reimbursement that covers at least 100 percent of the costs).

The Postal Service was allowed to provide property and nonpostal services for federal agencies prior to the PSRA's passage. The Postal Service has interagency agreements with many federal agencies to provide nonpostal services and space in post offices. For example, the Postal Service collaborates with the Department of State to provide passport services to citizens. Additionally, USPS has an interagency agreement with the Department of Justice to display posters and educational information about National Crime Victim's Rights Week in post offices. The Postal Service also provides selective service registration through the Selective Service System and veteran burial flags for the Department of Veteran Affairs through its post offices.

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19 PSRA §103. See also 39 USC §411, https://uscode.house.gov/view.xhtml?path=/prelim@title39/part1&edition=prelim.
20 39 USC §404(e), https://uscode.house.gov/view.xhtml?path=/prelim@title39/part1&edition=prelim.
21 Postal Regulatory Commission, *Annual Compliance Determination Fiscal Year 2021*, March 29, 2022, p. 94, https://www.prc.gov/sites/default/files/reports/FY%202021%20ACD.pdf.
22 39 USC §411, "Executive agencies… are authorized to furnish property, both real and personal, and personal and nonpersonal services to the Postal Service, and the Postal Service is authorized to furnish property and services to them. The furnishing of property and services under this section shall be under such terms and conditions, including reimbursability, as the Postal Service and the head of the agency concerned shall deem appropriate." Examples include processing passport applications for the State Department, selling Migratory Bird Hunting and Conservation (Duck) stamps for the United States Fish and Wildlife Service, and processing equal employment opportunity complaints. (PRC, *Review of Nonpostal Services Under the Postal Accountability and Enhancement Act*, Docket No. MC2008-1, December 9, 2008, p. 57, https://www.prc.gov/docs/61/61647/Order_No_154.pdf).

USPS Implementation Requirements

In order to implement these provisions, the Postal Service will:

- Examine possible programs for provision of nonpostal services for state, local, and tribal government agencies. While the Postal Service is evaluating how to manage this program in a manner beneficial to USPS and its customers, no specific actions have yet occurred;
- Review current interagency agreements with federal agencies to assess their compliance with any applicable PSRA requirements for net contribution and cost attribution; and
- Establish procedures to facilitate reporting to PRC on costs, revenues, rates, and quality of service for nonpostal service agreements. This reporting is required within 90 days of the end of the calendar year in which such services were offered.

While the enhanced ability of the Postal Service to offer even limited nonpostal services could result in increased revenues, any such revenues may be relatively modest, as nonpostal services have historically constituted a small portion of the Postal Service's revenue. Nevertheless, such services may provide a tangible benefit to local communities. The OIG has previously examined the potential for the Postal Service to provide nonpostal services, for example, to promote broadband deployment or to support health and wellness services to benefit the public.[23] The OIG has also examined potential joint ventures between the Postal Service and local governments, such as attaching sensors to postal vehicles to collect data on road conditions and offering a portfolio of in-person proofing (IPP) services nationwide to the customers and employees of federal and state agencies.[24]

Operational Reforms of the PSRA

In addition to the Title I financial reforms detailed above, Title II of the PSRA includes several provisions related to Postal Service operations. Several of these provisions are designed to increase the Postal Service's accountability and transparency, and review cost attribution between competitive and market dominant products and mail processing procedures. In addition, the PSRA changes the funding and oversight of the PRC.

Performance Targets and Increased Transparency

The PSRA establishes additional procedural requirements for performance targets for market dominant products. In addition, the Postal Service is to offer the public an online dashboard to furnish information about service performance.[25] According to the PSRA, within 60 days of the start of the fiscal year, the Postal Service is required to establish and provide the PRC with "reasonable" performance targets to ensure that service standards for market dominant products are being achieved. The PRC will then provide to the Postal Service, no later than 90 days after receiving the performance targets, requirements for publishing nationwide, regional, and local delivery area performance information.[26] The Postal Service will create a public-facing dashboard, to be updated weekly and be searchable by address or ZIP Code.

The performance targets and public-facing dashboard are intended to compel the Postal Service to increase transparency relative to meeting performance standards. This could allow its customers — mailers and the public — to better evaluate the quality of service they receive. Depending upon the requirements developed by the PRC, the information could be more valuable to some stakeholders than that currently made available. It will be updated weekly, as opposed to the current system of publicly available quarterly updates.[27] Also, the law requires the data to "reflect the most granular geographic level of performance information appropriate for the Postal Service to publish." The Postal Service's publicly posted data on its delivery

23 USPS OIG, *Next Generation Connectivity: Postal Service Roles in 5G and Broadband Deployment*, RISC-WP-20-007, September 14, 2020, https://www.uspsoig.gov/sites/default/files/document-library-files/2020/RISC-WP-20-007.pdf, and *Partnering for Health: Potential Postal Service Roles in Health and Wellness*, RISC-WP-21-001, March 11, 2021, https://www.uspsoig.gov/sites/default/files/document-library-files/2021/RISC-WP-21-001.pdf.

24 USPS OIG, *Step Into Tomorrow: The U.S. Postal Service and Emerging Technology*, RISC-WP-21-007, August 26, 2021, p. 9, https://www.uspsoig.gov/sites/default/files/document-library-files/2021/RISC-WP-21-007.pdf, and USPS OIG, *The Role of the Postal Service in Identity Verification*, RISC-WP-22-006, May 11, 2022, p. 10, https://www.uspsoig.gov/sites/default/files/document-library-files/2022/RISC-WP-22-006.pdf.

25 PSRA §201.

26 While the PRC does not set service standards for market dominant products, they are consulted. The PRC can also hear rate and service complaints and fine the Postal Service for failures to comply with certain provisions. 39 USC §§ 3691 and 3662, https://www.law.cornell.edu/uscode/text/39/3691 and https://www.law.cornell.edu/uscode/text/39/3662.

27 The Postal Service currently makes quarterly performance data available on its website. USPS, Service Performance Results, https://about.usps.com/what/performance/service-performance. The Postal Service also provides full-service mailers with data via dashboards through the Business Customer Gateway application. In addition, the USPS OIG provides a quarterly service performance dashboard. USPS OIG, USPS Service Performance, https://www.uspsoig.gov/service-performance.

performance for market dominant products is currently available down to the District level.

USPS Implementation Requirements

In order to implement these provisions, the Postal Service will:

- Provide to the PRC service performance targets no later than 60 days after the start of each fiscal year;
- Create and maintain a service performance dashboard within 60 days from the date the PRC provides its requirements and recommendations. The Commission initiated a public docket April 26, 2022, inviting comment regarding the PRC's dashboard mandate, with comments due by June 3, 2022, and reply comments due by June 24, 2022.[28] Since that time, the Commission issued a notice of proposed rulemaking, with comments due October 31, 2022.[29] The PRC will use the comments submitted to help determine next steps and any regulations required for implementation;
- Consult with the PRC about dashboard features. The dashboard will be posted to the Postal Service website and must be implemented within 60 days of receiving requirements from the PRC and be updated continuously; and
- Include references to the dashboard into its Annual Performance Plan and Annual Performance Report.

Efficiency is also a concern for the Postal Service that the transparency provisions may help address. Postal Service management told the OIG that increased transparency generally leads to increased efficiency due to human nature — individuals and organizations tend to do better when they know the results of their work can be readily reviewed. Consequently, giving the public greater and more easily accessible insights into local-level service could drive improvements.

Addition of Reporting Requirements

The PSRA establishes new reporting requirements for the Postal Service, to ensure that decisionmakers have up-to-date and accurate information.[30] It requires the Postmaster General to submit a report to the President, the PRC, the Senate Committee on Homeland Security and Government Affairs, and the House Committee on Oversight and Reform every six months concerning the Postal Service's operations and financial condition. These reports must include information on mail and package volume growth, the effect of prices on volume, the status of the USPS Connect program, and the use of Priority Mail services, among others.

USPS Implementation Requirement

In order to implement these provisions, the Postal Service will prepare a report on the operations and financial condition of the Postal Service for the President, the Senate Homeland Security and Government Affairs Committee, the House of Representatives Committee on Oversight and Reform, and the PRC no later than 240 days following enactment of the PSRA (December 2, 2022) and every six months thereafter for five years.

The new reporting requirements will help the Postal Service as well as Congress and stakeholders monitor the impacts of USPS's initiatives to improve service performance and transparency and improve the Postal Service's financial condition. For example, the DFA states that over the coming decade, USPS will seek to use emerging technologies for intelligent workload planning and predictive modelling to enhance operational efficiency. By enhancing operational efficiency, USPS can better predict service performance, providing greater customer satisfaction. The new biannual report could provide decisionmakers with another means of monitoring the impact of these initiatives on USPS's operations and financial conditions.

Establishment of an Integrated Delivery Network and Six-Day Delivery Schedule

The PSRA requires the Postal Service to have an integrated network for the delivery of market-dominant and competitive products.[31] The Postal Service already maintains an integrated network, in that mail and packages primarily flow through the same network for processing and delivery. In effect, the PSRA codifies that the Postal Service may not separate its regular mail and parcel networks into independently operating entities.

However, there is no authoritative definition or precise criteria for what constitutes an integrated network. Prior to the PSRA being signed into law, the Congressional Research Service suggested

28 PRC Docket No. PM2022-7, Order No. 6160, April 26, 2022, https://www.prc.gov/docs/121/121587/Order6160.pdf.
29 PRC Docket No. PM2022-7, Order No. 6275, September 21, 2022, https://www.prc.gov/docs/122/122840/Order%20No.%206275.pdf.
30 PSRA §207.
31 PSRA §202.

that Congress could seek clarity on the meaning of the "integrated network" to ensure the context of the provision is clear: "[t]he term integrated network is not defined in the bill, nor is it defined in USPS guidance, such as the Domestic Mail Manual… Congress might seek clarity in the meaning of integrated network in the context of this section to ensure that USPS understands the goals set forth in the PSRA and directs its investments to those ends."[32]

Since the Postal Service already operates what is generally considered an integrated delivery network, this provision does not require any implementation steps on the part of USPS. However, if there are strategic proposals in the future to significantly change the flow of parcels through the network compared to mail, it could necessitate defining the criteria of an "integrated network" to ensure compliance with the PSRA. The Postal Service is currently taking steps to further improve its network to satisfy service needs and cost objectives.

The PSRA also codifies six-days-a-week delivery of mail by the Postal Service, with an allowance for exceptions in areas where there is already a policy of delivery less than six days a week. Prior to the PSRA, six-day delivery was mandated by Congress in annual appropriations bills and was therefore up for debate annually. Codifying six-day delivery in the PSRA provides the mailing and shipping industry more certainty in the Postal Service's delivery schedule.

Since the Postal Service already has an integrated delivery network and provides six-day delivery, complying with these provisions of PSRA requires no implementation on the part of USPS. The Postal Service will continue its ongoing efforts to improve the integrated network.

Review of Cost Attribution Guidelines

While already within the PRC's authority, the PSRA requires the PRC to conduct another assessment of its cost attribution requirements and to consider whether to revise these methodologies should they determine that all direct and indirect costs attributable to competitive and market-dominant products are not properly attributed to those products.[33]

Cost attribution is used for budgeting, forecasting, pricing, and product decisions. The Postal Service files a Cost and Revenue Analysis report with the PRC every December as part of the Annual Compliance Report. USPS uses statistical sampling systems and various studies to assign annual or quarterly costs to products, using informational sources designed for operational purposes. Attribution costs assigned through these systems use data from numerous postal operational and statistical information sources. The report's methodology is filed with the PRC and is open for comments by stakeholders. USPS may file methodological changes for the report based on improved data or methodology. Some critics of the current cost attribution methodology claim that market-dominant products subsidize competitive products. In particular, some of USPS's competitors believe that the alleged cross-subsidization is an abuse of the USPS's monopoly on mail service, allowing it to charge less for competitive products also sold by the private sector. To date, however, these claims have been dismissed by regulatory and judicial entities.

USPS Implementation Requirements

In order to implement these provisions, the Postal Service will participate in the PRC's review of cost attribution methodologies. This review must be initiated within one year of enactment of the PSRA, April 6, 2023. The PSRA states that "if the Commission determines…that revisions are appropriate, the Commission shall make modifications or adopt alternative methodologies as necessary."[34] Specific actions to be taken by the Postal Service will be determined by the results of the PRC's review.

Through the review of the cost attribution guidelines, the Postal Service could potentially enhance its current costing processes to strengthen its costing data. For instance, previously the OIG has noted ways that the Postal Service could explore methods of enhancing its current cost system to include more granular census data to increase the accuracy of the Postal Service's cost attribution calculations, better support complex product and pricing decisions, and allow management to apply cost analysis to specific customers and/or specific areas.[35] If the PRC review identifies potential improvements to the current cost methodology, it could result in more

32 CRS was evaluating an identical provision contained in an earlier version of postal reform legislation. Congressional Research Service, *Select Delivery Provisions in the Postal Service Reform Act of 2021* (H.R. 3076), June 2, 2021, (emphasis omitted), https://www.everycrsreport.com/files/2021-06-02_IN11686_b475f4e6c442290fb7c51751251d25a8aad1e20b.pdf.
33 PSRA §203.
34 *Ibid.*
35 USPS OIG, *Costing Best Practices*, CP-AR-19-004, September 17, 2019, https://www.uspsoig.gov/sites/default/files/document-library-files/2019/CP-AR-19-004.pdf.

accurate budgeting and forecasting and inform the implementation of further pricing initiatives.

Study Flats Operations

The PSRA requires the PRC, in consultation with the OIG, to study the causes and quantify the effects of possible inefficiencies in the collection, sorting, transportation, and delivery of flats mail.[36] The PRC is required to submit the findings of the study to Congress and the Postmaster General by April 6, 2023. The review of procedures for handling flats is intended to identify ways to improve performance, potentially leading to increased volume. The Postal Service will develop and implement a plan to remedy any identified inefficiencies to the extent practicable after public comment and PRC approval within six months of completion of the PRC study.

In its FY 2021 Annual Compliance Determination Report, PRC noted that in FY 2021 USPS Marketing Mail Flats experienced its worst cost coverage since the product was established in FY 2007, covering only 60.3 percent of costs (down from 63.3 percent in FY 2020).[37] PRC also found that for the first time, First-Class Mail Flats had cost coverage below 100 percent, falling to 98.9 percent in FY 2021 from 100.2 percent in FY 2020.[38] Marketing Mail Flats and First-Class Mail Flats volumes were down ten percent and two percent, respectively, between FYs 2020 and 2021.[39]

Figure 3: Flats Mail

Source: USPS

USPS Implementation Requirements

In order to implement these provisions, the Postal Service will:

- Participate in the PRC/OIG study of flats processing. The Postal Service will assist by allowing PRC and OIG access to facilities, information, and records necessary for the report.[40] The study will be completed within one year of the PSRA's enactment (April 6, 2023); and
- Develop a Flats Operations Reform Plan in response to the report's recommendations. The Postal Service will have six months from the report's release to develop the plan. Prior to implementing the plan, the Postal Service must obtain PRC approval and provide an adequate opportunity for public comment on the plan.

Prior to 2021, the First-Class Mail Flats service standard within the continental United States was delivery within one to three days. DFA proposed an initiative to change that standard to one to five days, and this change was implemented on October 1, 2021. Given these cost coverage issues and the modified service standard, the PSRA's flats operation study is an attempt to potentially improve efficiency, reduce costs, and help keep flats a viable product for mailers in the future.

Revisions to Transportation Selection Policy

The PSRA modifies the language shaping the Postal Service's transportation selection policy. Section 208 of the PSRA amends 39 USC §101(f) to make clear that, in selecting modes of transportation, USPS must also focus on providing not only prompt and economical but also "consistent and reliable" service for all mail in a manner that increases operational efficiency and reduces complexity.[41] Efficiency in the transportation network is a concern for the Postal Service — DFA describes the current air and surface networks as "underperforming and unreliable."[42] Air transportation is described as expensive and risky, since the Postal Service must rely on external carriers. At the same time, ground

36 PSRA §206. The Postal Service defines the term "flats" (or "large envelopes") as rectangular mailpieces no thicker than three-quarters of an inch. Flats must also be flexible, uniformly thick, unwrapped, wrapped, sleeved or enveloped, and have four square corners or finished corners not exceeding a radius of one-eighth of an inch. USPS, *What is a Large Envelope (Flat)?*, https://faq.usps.com/s/article/What-is-a-Large-Envelope-Flat.

37 Postal Regulatory Commission, *Annual Compliance Determination Report, Fiscal Year 2021*, March 29, 2022, p. 50. https://www.prc.gov/sites/default/files/reports/FY%202021%20ACD.pdf. PRC calculates cost coverage percentage as (Product Revenue / Attributable Cost) x 100. For example, for First Class Flats Mail in FY 21, product revenue is $1.312 B (Table VI-4, p. 233) and attributable cost is $1.326 B (Table VI-7, p. 235), thus cost coverage is calculated as ($1.312 B / $1.326) x 100 = 99% (Table VI-1, p. 229).

38 *Id.*, p. 44.

39 *Id.*, p. 232.

40 These efforts have already begun. See PRC Docket No. SS2022-1, https://www.prc.gov/docs/122/122282/Notice%20of%20Flats%20Operations.pdf.

41 The revised 39 USC §101(f) now reads "In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt, economical, **consistent, and reliable** delivery of all mail in a manner that increases operational efficiency and reduces complexity" *(emphasis added to highlight the new language mandated by the PSRA)*.

42 DFA, p. 11.

transportation is outperforming air (92 percent on-time performance for First-Class Mail transported by ground versus 89.4 percent by air). DFA also notes that ground transportation is relatively underutilized, with less than a 40 percent average load.

Postal Service management stated that the change in language mandated by the PSRA will not have a tangible impact on how they currently select modes of transportation. Rather, the change in language supports and reaffirms that the Postal Service considers both efficiency and cost effectiveness when making decisions on selecting modes of transportation.

The change to the wording of 39 USC §101(f) has already been made; this provision requires no implementation activities on the part of the Postal Service order to comply with the terms of PSRA Section 208. As noted in DFA, the Postal Service will continue to strive to attain a fully optimized surface and air transportation network.[43]

Expanded Rural Newspaper Marketing Tools

The PSRA provides expanded marketing tools for newspapers.[44] The PSRA increases from 10 to 50 percent the volume of intra-county newspapers that publishers may mail to nonsubscribers and still be entitled to the reduced subscriber rates.[45] Newspaper publishers often distribute free copies of their paper to non-subscribers as a marketing tool, in hopes of adding new subscribers and thus increasing circulation. Increasing the percentage of papers that may be sent at the reduced subscriber rate lowers publishers' marketing costs at a time when many smaller rural newspapers are struggling to survive. A representative from the National Newspaper Association told the OIG that mailing sample issues to nonsubscribers is the most effective tool small newspapers have to try to regain subscribers, and they hope this provision will help undo some of the financial damage done by challenging economic conditions and changing consumer preferences over the past several years. The increased nonsubscriber threshold was adjusted in Postal Service manuals and implemented on May 27, 2022.

Changes to PRC Funding

The PSRA requires that the PRC submit a budget of expenses to the Postal Service Board of Governors by September 1 of every year, and such expenses will continue to be paid out of the Postal Service Fund.[46] Previously, the PRC was required to prepare and submit an annual budget request which was submitted to the Office of Management and Budget (OMB) by the Postal Service.[47]

This change in the funding process for the PRC will allow it to continue regular operations during any future government shutdown, as the Postal Service currently does. The PRC's funding request can only be adjusted by unanimous vote by the Postal Service's governors. The governors may adjust the amount of money requested but may not "adjust any activity proposed to be funded by the budget."[48] Instead, it is up to the PRC to allocate the adjustment across its budget. Once the adjustment is made (or if the governors have no objections to the proposed budget), the funds are available to the PRC through the Postal Service Fund.

USPS Office of Inspector General Becomes Oversight Body of the PRC

The PRC's Office of Inspector General (PRC OIG) will be eliminated and the USPS OIG will provide PRC oversight.[49] The PRC OIG was established by the PAEA in 2006. The PRC OIG was small, consisting of three full-time employees: the IG, a senior auditor, and a program analyst. Its mission was to provide oversight of the PRC through audits, inspections, and evaluations, similar to the USPS OIG's oversight responsibilities of the Postal Service. Transferring these functions to the USPS OIG could eliminate redundancy and improve efficiency.

Congress has consolidated other statutory Offices of Inspector General. Previously, this was done as a result of the reorganization and consolidation of agency functions, such as when the Federal Emergency Management Agency was consolidated into the Department of Homeland Security. In a similar way, having the USPS OIG perform oversight of both the Postal Service and the PRC consolidates oversight functions.

Additionally, the PSRA amended the appointment and removal process for the USPS Inspector General (IG), providing PRC commissioners a voice in selecting (and retaining) their IG. Previously, the USPS IG was appointed by the governors of the U.S. Postal Service

43 *Id.*, p. 6.
44 PSRA §204.
45 The discount cannot be easily quantified as rates vary according to publication weight, entry point, advertising content and other factors.
46 PSRA §205.
47 This provision returns PRC funding to the methodology utilized prior to 2006.
48 PSRA, §205(a).
49 PSRA §209.

and could only be removed for cause upon a vote of seven of the nine governors. Under the PSRA, the IG is appointed by a majority of governors and PRC commissioners and may be removed for cause by the concurrence of seven governors and 3 of 5 PRC commissioners.

The USPS OIG officially assumed its duties overseeing the PRC on October 3, 2022. The elimination of the PRC IG and modifications to the USPS IG appointment and removal procedures require no action on the part of USPS.

Potential Future Postal Reform Issues

While the PSRA provides various financial and operational reforms intended to enhance the success of the Postal Service, there are several previous reform proposals that were not included in the Act (see Table 1). As the Postal Service continues to see the impacts of the PSRA, some of these provisions from previous reform proposals could be considered by Congress to further improve the Postal Service's financial and operational performance.

Table 1. Postal Reform Provisions in Prior Legislative Efforts Not Included in the PSRA

Proposed Bills	Investing in Index Funds	Postal Service Pension Fund Reform	Postal Financial Services	Five-Day Mail Delivery Week
H.R. 6076 PSRA of 2018		✓		
S. 2629 PSRA of 2018		✓		
H.R. 760 Postal Service Financial Improvement Act of 2017	✓			
H.R. 3617 Postal Act of 2017			✓	
H.R. 5816 Postal Banking Act			✓	
S. 2755 Postal Banking Act			✓	
H.R. 756 PSRA of 2017		✓		
H.R. 5714 PSRA of 2016		✓		
S. 1486 Postal Reform Act of 2014				✓
H.R. 2748 Postal Reform Act of 2013				✓
S. 2014 Postal Investment Act of 2011	✓			
S. 1625 Postal Reform Act of 2011				✓

Source: USPS OIG

Investing Retiree Assets in Index Funds

Two previously proposed reform initiatives included investing a portion of retiree health benefits funds in index funds. Index funds are mutual funds that track the returns of a market index, which measures the performance of a set of securities in a market or economy, such as stocks or bonds.[50] Currently, Postal Service retirement investments may only be invested in U.S. Treasury securities. While investing in Treasury securities is low risk, these securities offer a low rate of return to help meet future obligations of the retirement fund and provide limited protections against adverse economic effects such as higher inflation.

Proposals for investing in index funds have been modeled after investments established by the Thrift Savings Plan (TSP). Individual plans under the TSP can be invested in U.S. security treasuries or index funds of domestic and international stocks. Other government retirement funds have diversified their investment models similarly. Most state and local plans are diversified beyond government securities. Additionally, the U.S. Railroad Retirement Board, an independent federal agency, manages the investment of its retiree funds in index funds through the National Railroad Retirement Investment Trust (NRRIT). The NRRIT is mandated to invest assets of the Railroad Retirement Account in a diversified investment portfolio. The NRRIT is authorized to diversify railroad retiree investments into index funds, including stocks and bonds. Future postal reform efforts could look at the feasibility of implementing a similar system for the USPS. Previous OIG work on retiree funds investment strategy found that investment in higher risk funds leads to higher potential returns.[51]

Postal Service Pension Fund Reform

Postal Service pension fund reform has been discussed in several previous postal reform attempts. One significant issue concerns the methodology OPM uses for allocating the Civil Service Retirement System (CSRS) pension costs of employees who worked for both the Post Office Department and Postal Service. Previous reform efforts proposed revisions to this methodology to determine the Postal Service's liability under CSRS. Both the OIG and PRC have issued reports suggesting alternative ways of splitting the CSRS pension costs between the Postal Service and the federal government.[52]

Some proposed legislation would have also required OPM to use postal-specific demographic and economic assumptions when valuing the Postal Service's Federal Employees Retirement System (FERS) and CSRS pension accounts. The OIG issued work arguing that Postal-Service specific assumptions would provide a more accurate estimate of retirement liabilities that better matches future benefits.[53] In response, OPM adopted Postal Service-specific demographic assumptions in pension costs calculations but decided to continue the use of combined economic assumptions.[54]

Postal Financial Services

Several previous reform efforts included provisions allowing the Postal Service to provide additional basic financial services. These services included low-cost loans, small checking accounts in partnership with depository institutions or federal credit unions, and transactional financial services, among others. The proposed provisions would have given the Postal Service the authority to set interest rates and fees for these financial instruments, as well as capitalize an amount deemed necessary to perform these services. Currently, the Postal Service has the authority to provide a small range of basic financial services, such as money orders and electronic international money transfers, but would need legislative reform to expand financial services.

Five-Day Mail Delivery

Three previous reform attempts included provisions for a five-day mail delivery standard. The five-day mail delivery standard did not include the mailing of competitive products and packages, with one bill mandating a six-day package delivery schedule. These previous provisions are made moot by the PSRA's codification of a six-day mail delivery schedule in Section 202.

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50 Investor.gov, *Index Funds*, U.S. Securities and Exchange Commission, https://www.investor.gov/introduction-investing/investing-basics/investment-products/mutual-funds-and-exchange-traded-4.

51 The OIG found that after twenty years, investing conservatively in traditional or alternative portfolios would turn deficits in Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), and PSRHBF to surpluses. USPS OIG, *Postal Service Retiree Funds Investment Strategies*, FT-WP-17-001, September 20, 2017, https://www.uspsoig.gov/sites/default/files/document-library-files/2017/FT-WP-17-001.pdf.

52 USPS OIG, *The Postal Service's Share of CSRS Pension Responsibility*, RARC-WP-10-001, January 20, 2010, https://www.uspsoig.gov/sites/default/files/document-library-files/2015/rarc-wp-10-001_0.pdf, and The Segal Group, Inc., *Report to the Postal Regulatory Commission on: Civil Service Retirement System Cost and Benefit Allocation*, June 29, 2010, https://www.prc.gov/docs/68/68679/Report%20on%20CSRS%20Cost%20and%20Benefit%20Allocation%20Principles_1126.pdf.

53 For additional information, see USPS OIG, *Update for Measuring Pension and Retiree Health Benefits Liabilities*, FT-AR-17-007, May 2, 2017, p. 7, https://www.uspsoig.gov/sites/default/files/document-library-files/2017/FT-AR-17-007.pdf.

54 For additional details of the ruling, see Office of Personnel Management, *Federal Employees' Retirement System; Government Costs*, Federal Register Vol. 82, No. 205 (October 25, 2017), Page 49277, https://www.govinfo.gov/content/pkg/FR-2017-10-25/pdf/2017-23141.pdf.

Codification of the Universal Service Obligation

While not proposed in prior postal reform legislation, codification of the Postal Service's universal service obligation (USO) is an issue that may be addressed in the future. Regulated industries commonly have USOs, or a collection of requirements to ensure users receive a minimum service level at a reasonable price. As a regulated industry, the Postal Service has a USO; however, the Postal Service's USO is not clearly defined. The Postal Service's USO is currently a collection of regulations and legal requirements on geographic scope, access to services, and pricing, among other attributes. For example, part of the Postal Service's USO is to provide a range of postal services across the country; however, there is no specified regulation or policy to guide how many post offices should exist to provide this postal access.[55]

Codifying the USO has long been a concern for certain stakeholders and oversight agencies. The OIG and the PRC have published several reports on the potential benefits of codifying the USO. Additionally, PRC Commissioner Robert Taub has publicly called for a definition of the USO.[56] Codifying the USO could provide USPS with clarity as to the products and services it is required to provide and define the scope of its operations. This would, in turn, allow USPS to focus its planning efforts more sharply within the parameters of the USO.

Some stakeholders have voiced concerns over codifying the USO. For example, the codification of the USO could potentially work in the short-term but may not allow service to be modified or adapted to meet the changing needs of the country. In addition, some stakeholders view the six-day provision as sufficient codification of the USO. Further examination of the USO could potentially be addressed in the future in order to improve the prospects for the Postal Service's long-term sustainability.

Conclusion

Postal reform is hardly a new issue — Congress has made efforts to address the issue in every legislative session over the past decade. The Postal Service Reform Act of 2022 (PSRA) was the first piece of postal reform legislation to make it to the President's desk and was signed into law on April 6, 2022.

The PSRA will positively impact the Postal Service's finances and operations. Its financial provisions will help the Postal Service by removing an unfunded obligation from their balance sheet and reducing retiree benefit costs going forward. On the operations side, the PSRA seeks to improve Postal Service accountability and transparency, changes designed to improve service performance and increase overall efficiency.

While the elimination of prefunding obligations has had an immediate and beneficial impact on the Postal Service's bottom line, several provisions of the PSRA are yet to be implemented, including the PRC's operational reviews and Medicare integration. As implementation of the PSRA continues and the impacts are more fully realized, Congress and other stakeholders will need to evaluate whether previously proposed or new reform efforts are necessary to ensure the Postal Service's financial sustainability and continued service for the American public.

Summary of Management's Comments

Management stated that because the white paper evaluates each section of the PSRA individually, it "tends to mask a broader theme that emerges when PSRA is viewed holistically: namely, that the law complements and reinforces the initiatives laid out in the Delivering for America plan." Management cited examples of PSRA provisions — such as Section 202 of the PSRA requiring six-day-a-week delivery and an integrated delivery network, or Section 208's clarification of transportation selection guidelines — that they asserted illustrate that the PSRA "fully aligns with" the DFA.

Postal Service management asserted that the OIG did not recognize that USPS's efforts to more effectively configure its network "are essentially compelled by the PSRA" to achieve statutory objectives of providing high-quality service to all of the delivery addresses in America six-days per week, and in a financially self-sufficient fashion. Management similarly stated that the OIG narrowly interpreted Section 208 of the PSRA, which risks ignoring what management asserted is the broader context of the statute as a whole. In this larger context, management asserted that Section 208 "mandates the kinds of network and service standard changes laid out in the Delivering for America plan."

55 The OIG conducted an in-depth analysis on defining the USO in the following white paper: *Reevaluating the Universal Service Obligation*, RISC-WP-20-004, May 6, 2020, https://www.uspsoig.gov/sites/default/files/document-library-files/2020/RISC-WP-20-004.pdf.

56 Bill McAllister, "USPS seeks definition of its universal service obligation," *Linn's Stamp News*, March 12, 2020, https://www.linns.com/news/us-stamps-postal-history/usps-seeks-definition-of-its-universal-service-obligation.

In addition, Postal Service management commented on the white paper's discussion of a more precise clarification of the USPS's USO as a potential issue that could be revisited if additional postal reform is deemed necessary. Management stated that the current USO's "broad qualitative standards… reflect Congress's judgment that, to meet the nation's postal needs in a financially self-sufficient manner, the Postal Service is in the best position to balance competing interests and to make the necessary judgments to ensure high-quality service and financial viability, within the parameters of the postal law." Management asserted that Congress' preservation of basic flexibility in the USO was a considered policy choice.

See Appendix E for management comments in their entirety.

Evaluation of Management's Comments

The OIG appreciates management's comments on the white paper and the broader context in which it interprets the PSRA. In creating a primer, our intent was not to craft a holistic analysis of the interaction between the PSRA and the DFA. Our objective was to review the key provisions of the PSRA and identify potential opportunities and challenges they present for the Postal Service. We do recognize, and note in the paper, that passage of the PSRA is critical to allowing the Postal Service to achieve many of the financial and operational goals put forward in the DFA.

In addition, the OIG's discussion of the USO in this white paper should not be interpreted to imply that the PSRA "failed" to clearly define or codify the USO, as suggested in Postal Service management's comments. Rather, the OIG noted that postal stakeholders have discussed the benefits and concerns of a codified USO. While we state that further examination of the USO could potentially be addressed in the future, we offer no specific judgement in this white paper on if or how Congress should address the USO.

Appendices

Appendix A: Additional Information

Objective(s), Scope, and Methodology

This paper's objective was to review the key provisions of the Postal Service Reform Act of 2022 (PSRA) and identify potential opportunities and challenges they present for the Postal Service.

The scope of this paper was the Postal Service Reform Act of 2022 (H.R. 3076), as well as the Postal Accountability and Enhancement Act of 2006 (PAEA), and efforts within the 112th, 113th, 114th, 115th and 116th Congresses to effect Postal reform.

Our methodology included:

- Interviews with Postal Service officials. We interviewed Postal Service Headquarters senior and executive management. We also interviewed officials with the Postal Regulatory Commission, the Congressional Research Service, and various mailing and shipping industry groups; and
- Desk research, including analyses of the PSRA and its impacts conducted and published by the Congressional Research and the Government Accountability Office, and other analyses of the legislation and its impacts on the Postal Service, its stakeholders, and customers.

This research was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. We discussed our observations and conclusions with management on November 18, 2022.

Prior Coverage

Title	Objective	Report Number	Final Report Date	Monetary Impact
Postal Service Retiree Funds Investment Strategies	To determine alternatives to the current investment strategy of investing retirement assets by using a diversified portfolio to include bonds, equities, and alternative investments.	FT-WP-17-001	September 20, 2017	$0
Reevaluating the Universal Service Obligation	Provide an overview of the Postal Service's current universal service obligation (USO) and the challenges faced in continuing to provide services that meet its USO.	RISC-WP-20-004	May 6, 2020	$0
Treasury Inflation-Protected Securities	To determine the impact of investing Postal Service retirement fund assets in Treasury Inflation-Protected Securities (TIPS)	FT-AR-19-003	November 26, 2018	$2,781,473,463.00

Appendix B: Postal Service Reform Act of 2022

Title I – Postal Service Financial Reforms

§ 101 – Postal Service Health Benefits Program

Establishes a new Postal Service Health Benefits (PSHB) program for Postal Service employees, annuitants, and their dependents; requires all Postal Service employees, annuitants, and their dependents to enroll in Medicare Part B when eligible (i.e., reach the age of 65)

§ 102 – USPS Fairness Act

Eliminates the Postal Service's retiree health benefit prepayment requirement implemented by the Postal Accountability and Enhancement Act of 2006 (PAEA); relieves obligation to make Retiree Health Benefit Fund (RHBF) normal costs and amortization payments

§ 103 – Nonpostal Services

Authorizes the Postal Service to enter into agreements with state/local/tribal governments to offer nonpostal services to the public on their behalf, as long as the services are non-commercial, provide a net financial benefit to USPS, do not detract from core postal services, and are approved by the Board of Governors

Title II – Postal Service Operational Reforms

§ 201 – Performance Targets and Transparency

Requires the Postal Service to establish and provide PRC with reasonable performance targets to ensure that service standards for market dominant products are being achieved; PRC will provide USPS with requirements for publishing nationwide, regional, and local delivery are performance information; Postal Service must then create a public-facing dashboard to be update weekly and searchable by address or ZIP code

§ 202 – Integrated Delivery Network

Requires Postal Service to have an integrated network for the delivery of market-dominant and competitive products; codifies six day a week delivery of mail

§ 203 – Review of Postal Service Cost Attribution Guidelines

Requires PRC to review Postal Service's cost attribution methodologies for both competitive and market-dominant products and consider whether to revise these methodologies

§ 204 – Rural Newspaper Sustainability

Increases from 10 to 50 percent the volume of intra-county newspapers that may be mailed to nonsubscribers and still be entitled to reduced subscriber rates

§ 205 - Funding of Postal Regulatory Commission

Requires PRC to submit a budget of expenses to the USPS Board of Governors by September 1 of each year; PRC expenses will be paid out of Postal Service Fund

§ 206 – Flats Operations Study and Reform

Requires PRC, in consultation with the USPS OIG, to study the causes and quantify the effects of possible inefficiencies in the collection, sorting, transportation, and delivery of flats mail and submit findings to Congress and the Postmaster General; Postal Service must develop and implement a plan to remedy identified inefficiencies

§ 207 – Reporting Requirements

Requires Postmaster General to submit reports to PRC and Congressional oversight committees every six months concerning USPS' operations and financial condition

§ 208 – Postal Service Transportation Selection Policy Revisions

Amends 39 USC § 101(f) to make clear that, in selecting modes of transportation, USPS must focus on providing "consistent and reliable" service for all mail in a manner that increases operational efficiency and reduces complexity

§ 209 – USPS Inspector General Oversight of Postal Regulatory Commission

Eliminates the PRC's Office of Inspector General (OIG) and mandates the USPS OIG will provide oversight; stipulates that USPS Inspector General will be selected and removed by both the Postal Service governors and PRC commissioners, rather than just the governors

Title III - Severability

§ 301 – Severability

States that if any portion of the PSRA is deemed unconstitutional, the rest of the PSRA will not be affected

Appendix C: Previous Postal Reform Legislative Efforts

The table provides a list of comprehensive postal reform legislation introduced in the past ten years, each including a variety of reform issues. The OIG compiled the list from the U.S. Congress' online database, pulling legislation mentioning wide-ranging Postal Service reform. Bills that were focused on a single specific postal reform issue were not included.

Congress	Start Year	Legislation Number	Legislation Title	Outcome of Legislation
117th	2021	S. 1720	Postal Service Reform Act of 2021	Introduced in Senate
116th	2019	S. 2965	The USPS Fairness Act	Introduced in Senate
116th	2019	H.R. 2382	The USPS Fairness Act	Passed the House
115th	2018	H.R. 6076	Postal Reform Act of 2018	Introduced in House
115th	2018	H.R. 5816	Postal Banking Act	Introduced in House
115th	2018	S. 2755	Postal Banking Act	Introduced in Senate
115th	2017	S. 2629	Postal Service Reform Act of 2018	Introduced in Senate
115th	2017	H.R. 756	Postal Service Reform Act of 2018	Passed by Committee on Oversight and Government Reform, but died in other committees
115th	2017	H.R. 3617	POSTAL Act of 2017	Introduced in House
115th	2017	H.R. 760	Postal Services Financial Improvement Act of 2017	Died in committee
114th	2015	H.R. 5714	Postal Service Reform Act of 2016	Discharged by committee but was not voted on
114th	2015	S. 2051	Improving Postal Operations, Services, and Transparency Act of 2015	Died in committee
113th	2013	S. 1486	Postal Reform Act of 2014	Died in committee
113th	2013	H.R. 2748	Postal Reform Act of 2013	Discharged by committee but was not voted on
113th	2013	H.R. 961	United States Postal Service Stabilization Act of 2013	Introduced in House
112th	2011	S. 1789	21st Century Postal Service Act of 2012	Passed Senate
112th	2011	H.R. 2309	Postal Reform Act of 2012	Died in committee
112th	2011	S. 1625	Postal Reform Act of 2011	Introduced in Senate
112th	2011	S. 2014	Postal Investment Act of 2011	Introduced in Senate

Appendix D: Nonpostal Services Grandfathered Under the PAEA

Nonpostal Services Grandfathered Under the PAEA	
Market Dominant Nonpostal Service	**Competitive Nonpostal Services**
■ MoverSource: *An informational program for change-of-address services and relevant information* ■ Philatelic sales: *A range of stamps and stamp-related items for the hobby of stamp collecting*	■ Affiliates for websites ■ Affiliates – other ■ Electronic Postmark® ■ FedEx® drop boxes ■ Licensing programs other than officially licensed retail products ■ Non-sale lease agreements – nongovernmental ■ Officially licensed retail products ■ Passport photo services ■ Photocopying service ■ Training facilities

Source: GAO, *U.S. Postal Service: Overview of Initiatives to Increase Revenue and Introduce Nonpostal Services and Experimental Postal Products*, January 2013.

Appendix E: Management's Comments

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GENERAL COUNSEL
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UNITED STATES POSTAL SERVICE

December 14, 2022

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SUBJECT: Management Response: Primer on Postal Reform – White Paper (2022RISC006)

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) white paper, Primer on Postal Reform. We appreciate the OIG's attention to the Postal Service Reform Act of 2022 (PSRA), the first significant postal reform law in more than 15 years.

The long-awaited passage of the reforms contained in the PSRA is a critical element of our Delivering for America plan, the 10-year strategic plan we issued before the PSRA's passage to transform the Postal Service from an organization in financial and operational crisis to a world-class and financially sustainable delivery service. We applaud the bipartisan consensus reached by House and Senate Committee leaders, who recognized the urgency and importance of the PSRA's enactment for the American people who rely on us, as well as for our 650,000-person workforce.

To be sure, the PSRA's passage is only one step toward the long-term goals of restoring financial sustainability and service excellence. Our ability to achieve these goals and meet the country's evolving mailing and shipping needs also depends greatly on the self-help elements of the Delivering for America plan to increase efficiency, reduce costs, and grow revenue. We have begun implementing the pricing policies, network transformation, operational precision and growth initiatives set forth in the plan. But there is no doubt that, as the OIG's white paper correctly recognizes, the reforms set forth in PSRA are collectively a needed step toward the achieving our goals.

The OIG's white paper is principally devoted to a section-by-section summary of the PSRA's provisions. While we generally agree with the OIG's summary, we do note that the section-by-section approach reads each provision in isolation, and thereby tends to mask a broader theme that emerges when the PSRA is viewed holistically: namely, that the law complements and reinforces the initiatives laid out in the Delivering for America plan. As an example, Section 202 of the PSRA amends 39 U.S.C. § 101(b) to expressly provide that the Postal Service "shall maintain an integrated network for the delivery of market-dominant and competitive products," with delivery generally occurring six days a week. The OIG's white paper states that, because "the Postal Service already maintains an integrated network, in that mail and packages primarily flow through the same network for processing and delivery," this new provision merely "codifies" existing practice and "does not require any implementation steps" to ensure it is satisfied.

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While OIG's interpretation may be literally true when viewing Section 202 in isolation, its narrow focus does not fully account for the fact that this statutory language fully aligns with the Delivering for America plan, which is designed to enhance the Postal Service's operational efficiency and precision, in order to ensure that the mail and package network is integrated effectively to achieve the Postal Service's mission of providing high quality postal services in a self-sufficient manner, six days (and in some cases seven days) a week. We appreciate the OIG's recognition that the "Postal Service is taking steps to further improve its network to satisfy service needs and cost objectives." However, the white paper does not recognize that these efforts to more effectively configure our network are essentially compelled by the PSRA, since our failure to do so would make it virtually impossible to achieve the statutory objectives of providing high-quality service to all of the delivery addresses in American six-days per week, and in a financially self-sufficient fashion. In short, improving the integration of our network and our operational precision and efficiency directly advances the achievement of both Section 202 and the broader purposes that the PSRA, as a whole, was designed to promote.

A similarly narrow focus is found In the OIG's summary of PSRA Section 208, which (among other things) provides that, in selecting modes of transportation, the Postal Service must give "highest consideration" to the "prompt, economical, consistent, and reliable delivery of all mail," replacing language focusing solely on "prompt and economical delivery." The OIG's white paper recognizes this statutory change, but opines that it "requires no implementation activities" because we are already considering "both efficiency and cost effectiveness" in selecting modes of transportation and in fully optimizing our surface and air transportation network.

Interpreting Section 208 narrowly and in isolation as a specific mandate with which we need to comply (and with which we are already complying) is potentially misleading and risks ignoring a larger point. Section 208 is part of a broader suite of provisions that require the Postal Service to make the judgments and to do the balancing act (consistent with the statutory standards) to ensure that we can provide high-quality service in a cost effective and financially sustainable fashion. Viewed holistically, and within the broader context of the statute as a whole, this provision mandates the kinds of network and service-standard changes laid out in the Delivering for America plan. Put succinctly, the PSRA should be read not simply as a series of discrete requirements, but also as a comprehensive directive and an endorsement of the transformational efforts that we have already begun undertaking after years of underinvestment and neglect.

Finally, we would like to comment on the OIG's discussion of "potential future postal reform issues," and specifically its suggestion that the PSRA somehow failed to "clearly define[]" or "codify" the Postal Service's universal service obligation (USO). The parameters of the USO are established by Congress, and, broadly speaking (and as the OIG recognizes), reflect Congress's judgment of how to ensure that all users of the postal system receive a sufficient level of service at a reasonable price.

While some other countries establish a comprehensive set of specific, quantitative standards, our USO is comprised of some detailed quantitative standards and other broad policy statements imposing qualitative standards to which the Postal Service must adhere when providing service. These broad qualitative standards exist for a reason; they reflect Congress's judgment that, to meet the nation's postal needs in a financially self-sufficient manner, the Postal Service is in the best position to balance the competing interests and to make the necessary judgments to ensure high-quality service and financial viability, within the parameters of the postal law. As such, Congress deliberately and quite reasonably determined that the Postal Service should be given the flexibility to adjust to changing circumstances, subject to regulatory oversight by the Postal Regulatory Commission to ensure that we are meeting our statutory standards and requirements.

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Through the PSRA, Congress chose to codify in title 39 additional standards regarding the provision of universal service (six-day delivery, through an integrated network for mail and packages), but otherwise preserved the basic flexibility that has long characterized our USO. This was not a lost opportunity for clarification, but instead was clearly a considered policy choice that further specificity was unnecessary and that the American public is best served by leaving it to the Postal Service to do the appropriate balancing and to determine how best to satisfy the quantitative and qualitative standards of our USO in a self-sufficient manner.

While the comments above are designed to provide further context on the PSRA's provisions and on the nature of the USO, we do want to make clear that we largely agree with the OIG's summary of the PSRA itself, and we would again like to thank the OIG for its work on this important piece of legislation.

Sincerely,

Thomas J. Marshall

Thomas J. Marshall

cc: Corporate Audit Response Management

Contact us via our Hotline and FOIA forms. Follow us on social networks. Stay informed.

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