Fiscal Year 2019

Integrated Financial Plan

United States Postal Service

EXECUTIVE SUMMARY

In 2018, the Postal Service reported a controllable loss of $2.0 billion. The net loss for the year was $3.9 billion. Our Annual Report on form 10-K, which was filed with the Postal Regulatory Commission (PRC) on November 14, 2018, contains a detailed analysis of the 2018 financial results and provides a baseline for understanding our projected 2019 results.

The 2019 Integrated Financial Plan (IFP) projects continuing financial challenges for the Postal Service, resulting in a controllable loss of $3.1 billion and a net loss of $6.6 billion in 2019.

Statement of Operations

In Billions		FY2018 Actual		FY2019 Plan
Revenue	$	70.8	$	72.1
Controllable Expenses [1, 2]		72.8		75.2
Controllable Income [1, 2]	**$**	**(2.0)**	**$**	**(3.1)**
RHB Normal Cost Actuarial Revaluation & Amortization [3, 4]		(0.9)		(1.1)
Workers' Comp. Fair Value and Other Non-Cash Adj.		1.4		-
FERS Unfunded Liabilities Amortization [3]		(1.0)		(1.0)
CSRS Unfunded Liabilities Amortization [3]		(1.4)		(1.4)
Net Loss	**$**	**(3.9)**	**$**	**(6.6)**
Mail Volume (Pieces)		**146.4**		**143.7**

1 - Before Retiree Health Benefits (RHB) amortization and actuarial changes to RHB normal cost, Federal Employee Retirement System (FERS) and Civil Service Retirement System (CSRS) unfunded liability amortization, and non-cash adjustments to workers' compensation liabilities.
2 - The RHB normal cost for 2018 totaled $3.7B, of which $3.5B was considered controllable. Controllable expenses include only the portion that was identified by OPM prior to the issuance of the FY2018 IFP.
3 - This represents the OPM amortization expense related to the FERS, CSRS, and Postal Service Retiree Health Benefit Fund liabilities. These are based on the invoices from OPM.
4 - Includes effect of estimated $0.2B annual increase in RHB normal cost due to estimated changes to discount rate.

Revenue is projected to grow by $1.3 billion in 2019. This increase is driven primarily by package volume growth, coupled with strategic price increases on packages. Market-Dominant revenues are expected to fall, as price increases capped at CPI are insufficient to offset volume losses.

Controllable expenses in 2019 are expected to increase by $2.4 billion over 2018, with $0.5 billion of that increase from actuarially-determined retiree health benefits (RHB) normal costs. Transportation costs are expected to increase by $0.4 billion due to a combination of more packages requiring air transportation and higher fuel prices. Excluding the impact of transportation and RHB normal costs, and a one-time adjustment that reduced 2018 expenses, the remaining controllable expenses in 2019 are planned to increase by approximately 2.0 percent, in line with inflation.

Beginning in 2017, the 10-year RHB pre-funding schedule was replaced with a requirement that the Postal Service fund the normal costs of RHB earned by current postal employees, as well as a requirement to fund the unfunded liability of the Postal Service Retiree Health Benefits Fund (PSRHBF). These are calculated by the Office of Personnel Management (OPM). The estimated RHB amortization expense for 2019 is $1.1 billion. The 2019 amortization expenses for our obligations to Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS) are estimated by OPM to be $1.4 billion and $1.0 billion, respectively. These expenses are not included in controllable expenses because they are highly sensitive to actuarial assumptions outside of our control. For example, a one percent increase in the discount rate applied to the RHB liability would decrease the liability amount by $14.1 billion and decrease the annual amortization payment by $0.6 billion, while a decrease in the rate would increase the liability and amortization payment by $16.9 billion and $0.7 billion, respectively. Similarly large changes in the actuarial liabilities and amortization expenses would impact CSRS and FERS due to discount rate changes.

The IFP does not project the non-cash portion of workers' compensation expense, because it is dependent on actuarial assumptions, interest rates, and other factors that are outside of management's control and extremely difficult to predict. For example, a one percent increase in the discount rate would decrease the September 30, 2018 workers' compensation liability and related expense by approximately $1.6 billion. Similarly, a one percent decrease in the discount rate would increase the September 30, 2018 workers' compensation liability and related expense by approximately $2.0 billion.

The IFP projects that 2019 work hours will be approximately nine million lower than in 2018. This is in spite of the continued growth in delivery points, the addition of one delivery day compared to 2018, and growth in more labor-intensive package volumes. These work hour reductions will be achieved by identifying and achieving efficiency improvements in all aspects of processing, delivery, retail, maintenance, and transportation, in order to better align our infrastructure with mail volume declines. However, these work hour savings will not be sufficient to offset inflationary and other cost increase drivers.

We continue to pursue financial stability through product development and innovation, pricing, improved operational efficiencies, and cost reductions. However, it will also take significant legislative reforms, and a successful PRC 10-year pricing review, to re-balance our assets and liabilities and eliminate the accumulated net deficiency.

ECONOMIC ASSUMPTIONS

At the time this plan was developed, the economy was projected to show continued improvement in 2019, driven by growth in real disposable income and employment, leading to more robust and stable Gross Domestic Product (GDP) growth, continued growth in housing, and higher investment spending. Growth in online shopping, emerging technologies, and improved consumer confidence could have a further positive influence on economic growth in 2019. This positive outlook is tempered somewhat by expectations that the Federal Reserve will continue raising short-term interest rates, which may restrain economic growth.

Economic Drivers

	FY2018 Forecast	FY2019 Forecast
Gross Domestic Product	2.9%	2.9%
eCommerce	15.8%	12.6%
Consumer Price Index for All Urban Consumers	2.4%	2.1%
Consumer Price Index for Wage and Clerical Workers	2.5%	2.4%
Employment Cost Index	2.9%	3.3%
Employment	1.8%	1.5%
Investment	5.5%	5.3%
Transportation	4.5%	3.4%

The Postal Service's financial position and results of operations will also continue to be impacted by the state of the economy, which is now in its 10th straight year of expansion. This is a historically long period of growth, which some economists believe may leave the country vulnerable to an economic slowdown or recession. Beyond these broad economic factors, significant business-specific risks remain. Market-Dominant mail volumes continue to decline, as mailers migrate to digital solutions for communication, transactional and advertising needs, while competition in package delivery remains intense.

In developing the IFP, we consider factors such as multi-year trends in our product sales (with greater weight on more recent trends), expected market growth, competitive market dynamics, changes in prices and marketing programs, the expected rate of migration of hard-copy mail to digital media, and the expected state of the overall economy. Any significant slowdown in economic growth would adversely affect our volumes, revenues and financial results.

A. Volume

The 2019 IFP projects total mail volume of 143.7 billion pieces, a decline of 2.7 billion pieces, or 1.8 percent, from 2018.

Volume		
Billion pieces	FY2018 Actual	FY2019 Plan
First-Class Mail	56.7	54.3
Marketing Mail	77.3	77.2
Shipping and Packages	6.2	6.3
International	0.9	0.9
Periodicals	5.0	4.7
Other	0.3	0.3
Total Volume	**146.4**	**143.7**

For First-Class Mail, the IFP projects a decline of approximately 2.4 billion pieces, or 4.3 percent, from 2018, reflecting the ongoing migration of communications and transactions out of First-Class Mail into electronic media. Bill and statement volumes are expected to continue their pattern of modest diversion, as customers increasingly accept bills and statements electronically, often on their mobile devices, and often in response to incentives by companies for making the switch. First-Class Mail single-piece volumes are also expected to decline, continuing a trend that has been evident for a number of years.

USPS Marketing Mail volume is expected to be relatively flat compared to 2018, although competition from electronic media is intensifying. Marketers continue to leverage technology to better target customers, and increase their investment in digital advertising, at the expense of hard-copy media. However, USPS Marketing Mail continues to provide a good value and return on investment. We intend to continue efforts to further improve the value of USPS Marketing Mail by enhancing it with innovations such as Informed Delivery. In addition, increases in political and election mail leading up to the midterm elections are expected to favorably impact USPS Marketing Mail volumes in early fiscal year 2019.

Periodicals volume is expected to continue to decline as readership continues to migrate to online media.

Shipping and Packages volume is expected to grow 3.1 percent, to 6.3 billion pieces in 2019, driven by the strong growth in e-commerce, and our growth initiatives, marketing efforts, service, and competitive pricing. Priority Mail, Parcel Select, and First-Class Package Service, the three largest Shipping and Packages categories, are all expected to continue to show growth in 2019, driven by consistent, reliable service and price competitiveness. The growth rates for these products in 2019 are expected to decline somewhat due to aggressive competition in the delivery services market.

B. Revenue

Revenue in 2019 is expected to increase by $1.3 billion compared to 2018. This 1.9 percent increase is driven by the growth in packages.

The prices of Market-Dominant products and services are set to increase by approximately 2.5 percent, and the prices of Competitive products and services are expected to increase by an average of approximately 7.4 percent in January 2019.

Revenue				
in Billions		FY2018 Actual		FY2019 Plan
First-Class Mail	$	25.0	$	24.2
Marketing Mail		16.5		16.8
Shipping and Packages		21.5		23.1
International		2.6		2.9
Periodicals		1.3		1.2
Other		3.9		3.9
Revenue	**$**	**70.8**	**$**	**72.1**

The continuing decline in mail volume is expected to result in $0.5 billion less revenue from Market-Dominant products in 2019 than in 2018, despite CPI price increases. First-Class Mail revenue is expected to decline by $0.8 billion, or 3.2 percent. USPS Marketing Mail revenue is expected to increase by $0.3 billion, due to the combination of relatively flat volumes and the CPI price increase.

The growth in eCommerce coupled with a 7.4 percent average price increase is expected to generate an additional $1.6 billion in revenues from Shipping and Packages in 2019. However, Shipping and Packages products generally have lower contribution margins than First-Class Mail and are subject to intense competition. International Mail, additional services, and non-postal product related revenues are expected to increase $0.3 billion in 2019 compared to 2018 due to higher prices.

2019 OPERATING PLAN – WORK HOURS & EXPENSES

The 2019 IFP projects total work hours of 1,161 million, a reduction of nine million compared to 2018. The expected increase in package volumes, coupled with an increase of approximately 1.2 million delivery points and the addition of one delivery day in 2019, leads to an increase in work hours. This upward pressure is partially offset by declining letter and flat mail volumes, while complement management and efficiency improvements will allow us to achieve a work hour reduction, compared to 2018.

Expenses

in Billions		FY2018 Actual		FY2019 Plan
Salaries and Benefits	$	51.4	$	52.5
RHB Normal Cost [1]		3.5		4.0
Transportation		7.9		8.3
Depreciation		1.7		1.7
Supplies & Services		3.0		3.0
Rent / Utilities / Other		5.3		5.7
Controllable Expenses [1, 2]	**$**	**72.8**	**$**	**75.2**
RHB Normal Cost Actuarial Revaluation & Amortization [3, 4]		0.9		1.1
Workers' Comp. Fair Value and Other Non-Cash Adj.		(1.4)		-
FERS Unfunded Liabilities Amortization [4]		1.0		1.0
CSRS Unfunded Liabilities Amortization		1.4		1.4
Total Expenses	**$**	**74.7**	**$**	**78.7**

1 - RHB normal cost for 2018 reflects OPM's 2017 forecast. The 2019 RHB normal cost reflects OPM's 2018 forecast. Additional $0.2B calculated by OPM in 2018 is included in non-controllable expenses.
2 - Before RHB amortization & actuarial revaluation, non-cash adjustments to workers' compensation liabilities, and FERS and CSRS unfunded liabilities amortization, which are excluded from controllable expenses.
3 - This represents the OPM amortization expense related to the Federal Employee Retirement System (FERS), Civil Service Retirement System (CSRS), and Postal Service Retiree Health Benefit Fund (PSRHBF) liabilities. These are based on the invoices from OPM.
4 -Includes effect of estimated $0.2B annual increase in RHB normal cost due to estimated changes to discount rate.

Controllable expenses consist of costs, such as salaries, transportation and non-personnel expenses such as rent and utilities and supplies and services. They do not include the amortization of the FERS, CSRS, and RHB unfunded liabilities, and actuarial adjustments to the RHB normal costs and workers' compensation liability. Controllable expenses are projected to increase by $2.4 billion, or 3.3 percent, in 2019. Approximately $0.5 billion of the increase is due to an increase in the controllable portion of RHB normal costs and $0.4 billion is due to an increase in transportation. Excluding the impact of transportation, RHB normal costs, and a one-time decrease in 2018 expenses due to the reevaluation of a litigation matter, the remaining controllable expenses in 2019 are expected to increase by only 1.9 percent.

Salaries and benefits expenses are expected to increase by $1.1 billion or 2.1 percent in 2019, driven primarily by scheduled general wage increases, cost of living adjustments, and higher health benefits costs for active employees. The addition of 1.2 million delivery points and one delivery day, compared to 2018 add additional upward pressure to salaries and benefits expense. These cost pressures are partially offset by the planned nine million work hour reduction and continued workforce attrition.

Increasing transportation costs adversely affected our financial results in 2018 and this upward pressure is expected to continue in 2019. In 2019, transportation expenses are expected to increase by $0.4 billion, driven by increased package volumes, supplier cost increases, and higher costs for both jet and diesel fuel.

Other non-personnel expenses in 2018 were adjusted downward by $0.3 billion due to the revaluation of a litigation matter, and this adjustment will not repeat in 2019. Apart from this adjustment, other non-personnel expenses are expected to grow slightly, in line with inflation.

A. Capital Commitments

The 2019 capital plan calls for capital commitments of $1.8 billion across four categories. Capital commitments provide a view of future capital obligations that ultimately lead to cash outlays, sometimes over a period of years.

Capital Commitments					
In Billions	5 - Year Avg. ('13-'17)	FY2017 Actual	FY2018 Plan	FY2018 Actual	FY2019 IFP
Facilities	$0.4	$0.5	$0.7	$0.7	$0.8
Mail Processing Equipment	$0.4	$0.4	$0.3	$0.3	$0.4
Vehicles	$0.2	$0.3	$0.5	$0.4	$0.1
IT & Postal Support Equipment	$0.2	$0.2	$0.6	$0.2	$0.5
Total	**$1.2**	**$1.4**	**$2.1**	**$1.6**	**$1.8**

Facilities

The 2019 capital commitment plan for facilities is $0.8 billion and represents approximately 44 percent of the total capital commitment plan. These investments are primarily for building improvements, which include repairs and alterations to aging buildings, and facility modifications that are necessary to accommodate current and future operational needs. In addition, a small portion is for construction and building purchases.

Mail Processing Equipment

The 2019 capital commitment plan for mail processing equipment is $0.4 billion and represents approximately 22 percent of the total capital commitment plan. These investments are focused on improving existing equipment, increasing productivity and reducing operating costs, or making necessary upgrades due to obsolescence of components. These investments will also support the projected increase in volume for shipping and package services estimated for 2019 and beyond.

Vehicles

The 2019 capital commitment plan for vehicles is $0.1 billion or 6 percent of the total commitment plan. These vehicle investments will replace existing vehicles that are well past their expected useful lives or where replacement is deemed necessary due to high maintenance costs. The new vehicles, which will consist of service and administrative vehicles, will have better fuel efficiency and lower maintenance costs than those that are being replaced, which will result in cost savings. We continue to assess potential replacements for the bulk of our delivery fleet and expect prototype testing to conclude in 2019.

Information Technology and Postal Support Equipment

The 2019 capital commitment plan for the information technology (IT) and Postal Support Equipment category is $0.5 billion, or approximately 28 percent of the total plan. Investments in this category include cybersecurity-related investments, enhancements to mail scanning and tracking systems, systems updates, as well as upgrades and enhancements to computer hardware, servers, storage systems, and software development.

B. Capital Cash Outlays

Capital cash outlays are expected to increase over 2018 due to payments on commitments made in 2019 and prior years. Cash outlays for 2019 are for similar items as described on the prior page for capital commitments.

Capital Cash Outlays					
In Billions	5 - Year Avg. ('13-'17)	FY2017 Actual	FY2018 Plan	FY2018 Actual	FY2019 IFP
Facilities	$0.4	$0.5	$0.5	$0.6	$0.6
Mail Processing Equipment	$0.3	$0.3	$0.4	$0.3	$0.4
Vehicles	$0.2	$0.3	$0.5	$0.3	$0.3
IT & Postal Support Equipment	$0.2	$0.2	$0.4	$0.2	$0.4
Total	**$1.1**	**$1.3**	**$1.8**	**$1.4**	**$1.7**

2019 DEBT, LIQUIDITY AND FINANCING PLAN

We ended 2018 with unrestricted cash of $10.1 billion and $13.2 billion of debt. Our total liquidity was $11.9 billion, including $1.8 billion of available borrowing capacity.[1] This was a $1.4 billion improvement over 2017. This level of liquidity was achieved primarily by defaulting on payments to the CSRS, FERS and RHB funds totaling $48.2 billion from 2012 through 2018.

In 2019, we anticipate further reducing our debt to $11.0 billion. This will allow us to minimize interest expense, while maintaining sufficient liquidity to fund day-to-day operations and continue to make essential capital investments.

As shown in the table to the right, our retirement and RHB programs continue to be relatively well-funded, with the CSRS and FERS obligations both approximately 87 percent funded and the RHB program approximately 42 percent funded.

As of September 30, 2018

- **Total liabilities, including retirement obligations exceed assets by ~$124 billion.**
- **It would take RHB legislative change and decades of annual profits to remedy this level of excess liabilities and unfunded retirement obligations.**

CSRS Fund Balance [1]	$160.2B	CSRS Actuarial Liability [2]	$185.3B
FERS Fund Balance [1]	$119.0B	FERS Actuarial Liability [2]	$137.4B
RHB Fund Balance [3]	$47.5B	Retiree Health Benefits Obligation	$114.0B
Total Retirement-Fund Assets	$326.7B	Total Retirement-Related Liabilities	$436.7B
		Workers' Compensation	$16.4B
		Debt	$13.2B
Unrestricted Cash	$10.1B	Accrued Compensation, benefits, and leave	$4.1B
Land, Buildings & Equipment, net	$14.6B	Deferred Revenue	$2.1B
Other Assets	$2.0B	Other	$5.3B
Total Assets	**$353.4B**	**Total Liabilities**	**$477.8B**

- This includes all assets and liabilities of pension and post-retirement health benefits obligations.
- Items highlighted in yellow are not shown on our balance sheet under GAAP multi-employer rules and are the OPM's projected valuations.

[1] OPM projections as of September 30, 2018 includes amortization payments due by 9/30/18. Asset balances have been adjusted to reflect that payments were not made.
[2] OPM projections as of September 30, 2018.
[3] OPM valuation as of September 30, 2018.

[1] On November 14, 2018, the Temporary Emergency Committee adopted Resolution 18-16, Authorizing the Exercise of the Authority of the Postal Service to Borrow Money Under 39 U.S.C. § 2005. The Resolution limits the maximum outstanding debt balance to $13.2 billion through February 15, 2019, $12.5 billion from February 16, 2019 through May 15, 2019, and $11.0 billion from May 16, 2019 through September 30, 2019. The effect of these provisions may be to limit available liquidity to cash on hand, absent approval of a new borrowing resolution.

Our liquidity position in 2019 will be greatly impacted by the state of the economy and the success of our revenue growth and expense management initiatives. If financial results conform to plan, our year-end 2019 unrestricted liquidity is estimated to be roughly $8.7 billion, prior to making any decision regarding the lump sum payments due by September 30, 2019. The Board of Governors/Temporary Emergency Committee will decide whether or not to make the year-end payments at the end of 2019, based on the facts and circumstances at that time.

Unless there is a fundamental change in our financial condition, we will not have sufficient liquidity to pay down debt, fully fund retirement and RHB obligations, and invest in equipment and technologies to fulfill our statutory mission. We will continue to pursue aggressive management actions, cost reductions, and additional ways to generate revenue in 2019, but will also need legislative and regulatory changes to resolve protracted, structural issues with our pricing and cost structures. Many of the structural reforms needed to ensure long-term viability, such as full integration of RHB with Medicare, can only be achieved with legislative change to our unsustainable business model and a successful outcome from the PRC 10-year pricing system review.

CONCLUSION

The 2019 IFP reflects the Postal Service's continued efforts to achieve financial health and stability, within the limits of current laws and regulations. The IFP projects $1.3 billion growth in revenue, driven by price increases and packages volume growth. This revenue growth is reflective of a rapidly changing mailing environment, which requires us to balance cost management with increasing volumes of labor-intensive packages, as we also serve a growing delivery network.

Despite modest revenue growth and aggressive cost-containment initiatives, the Postal Service continues to have insufficient liquidity to fully fund all legally-required obligations, maintain a margin of safety in the event of an economic downturn to deal with contingencies, and make necessary capital investments. Our 2019 controllable loss, as shown on page one, is estimated to be $3.1 billion and our consolidated balance sheet reflects liabilities that exceed assets by approximately $124 billion. There are significant risks such as negative economic developments, accelerated declines in volumes, and inflation in fuel or wages that could worsen the controllable loss.

We continue to inform the Administration, Congress, the PRC, and other stakeholders of the immediate and longer-term financial issues we face and the legislative and regulatory changes that would help provide financial stability. Given the vital role the Postal Service plays in the U.S. economy, a financially healthy and stable Postal Service should continue to be a top priority for all stakeholders from legislative and regulatory bodies to management, employees, and customers. Our financial situation is serious, but solvable.