

# PSRA, USPS Finances, & Future Rate Increases

Lawrence G. Buc  
SLS Consulting, Inc.  
February 2023

# Today's Agenda

- PSRA & USPS's Interpretation
- FY 2022 Financial Results
- FY 2023 Q1 Financials
- RHB Normal Cost
- Projected July 2023 Increase & Impact of RHB Normal Cost
- Early Look at Potential January & July 2024 Increases

# What Did PSRA Do for USPS?

- Medicare integration reduced future USPS costs
- PSRA also shifted substantial Retiree Health Benefits (RHB) cost off Balance Sheet, but did not eliminate them
  - \$57 billion unpaid balance
  - ~\$4 billion per year normal cost
  - ~\$1 billion amortization (no longer mandated)

# USPS Accounting: The Prequel

- Remember: USPS is on an accrual basis
- USPS Handbook F-1
  - “The accrual basis of accounting dictates that the Postal Service record revenues when earned and *expenses when incurred, regardless of when the related assets and liabilities are collected or paid.*”
- Also remember: USPS has a balance sheet but also holds unfunded obligations off balance sheet

# How Did USPS Interpret PSRA Accounting?

(in billions)	FY 2022	FY 2021
<b>Assets</b>	<b>\$46.1</b>	<b>\$46.4</b>
Cash	\$23.6	\$24.3
Other Assets	\$22.5	\$22.1
<b>Liabilities</b>	<b>\$144.4</b>	<b>\$205.2</b>
Debt	\$10.0	\$11.0
Workers' Compensation	\$14.7	\$18.2
Pension Benefits	\$76.1	\$73.7
<b>RHB</b>	<b>\$23.7</b>	<b>\$81.3</b>
All Other	\$19.9	\$21.0
<b>Total Net Deficiency</b>	<b>-\$98.3</b>	<b>-\$158.8</b>

The action: PSRA removed \$57 billion prefunding requirement.

To get it off balance sheet, USPS recognized \$57 billion negative cost on income statement, which flows onto balance sheet.

# And What About Normal Costs?

- Normal costs = costs incurred this year for work this year for benefits paid later
- In FY 2022, normal costs was \$4.4 billion
- But USPS did not accrue it because they didn't get a bill or write a check
- But unfunded obligations increased with a line item reflecting that same exact amount



# How Did FY 2022 USPS Finances Look?

(in millions)	FY 2022	FY 2021
Revenue	\$78,620	\$77,041
Operating Expenses	\$79,570	\$81,844
<b>Net Income / (Loss)</b>	<b>-\$950</b>	<b>-\$4,803</b>
Non-Cash Workers' Comp	-\$3,454	-\$1,925
<b>Adjusted Net Income / (Loss)</b>	<b>-\$4,404</b>	<b>-\$6,728</b>

**But the FY 2022 number looks \$4.4 billion better due to the exclusion of normal cost accrual.**

# Not Much Better in FY 2023 Q1

(\$ in millions)	FY 2023, Q1	FY 2022, Q1
<b>Net Income (Loss)</b>	<b>-\$1,028</b>	<b>-\$1,547</b>
RHB Liability Amortization Payment	-	\$250
Workers' Compensation Non-Cash Benefit	-\$35	\$288
Pension (CSRS/FERS) Liability Amortization Payment	\$1,250	\$814
<b>Controllable Loss</b>	<b>\$187</b>	<b>-\$195</b>
Normal RHB Cost (RHB Cost Earned During Year)	-	\$1,075
<b>Controllable (Loss) Income Excluding All RHB</b>	<b>\$187</b>	<b>\$880</b>

(Volume in billions)	FY 2023, Q1	FY 2022, Q1	% Change
Market Dominant	31.7	33.3	-4.9%
Competitive Products	1.8	1.9	-3.1%
<b>All Mail</b>	<b>33.5</b>	<b>35.2</b>	<b>-4.8%</b>



# Back to Normal Costs

- August 12, 2022: USPS letter informing PRC of proposed treatment of RHB normal costs
- Lots of regulatory action in response
- NPPC files comments on treatment of normal costs, accompanied by statement from John C. Panzar
- Now we are all waiting on the PRC

# Implications for Next Price Increase?

- Expected implementation date:  
July 23, 2023
- How big will it be?
  - CPI Authority: 2.907%  
(through January)
  - SLS CPI Authority Prediction: ~3.4%
  - Density Authority: 0% - 0.936%  
(Depending on PRC)
  - Retirement Authority: 1.036%

CPI Authority	~3.4%
Density Authority	0% - 0.936%
Retirement Authority	1.036%
<b>Total Compensatory Classes</b>	<b>4.4% - 5.4%</b>
<b>Total Non-Compensatory Classes</b>	<b>6.4% - 7.4%</b>

Note: excludes 0.744% banked authority for Periodicals

# Normal Cost Treatment Has Implications

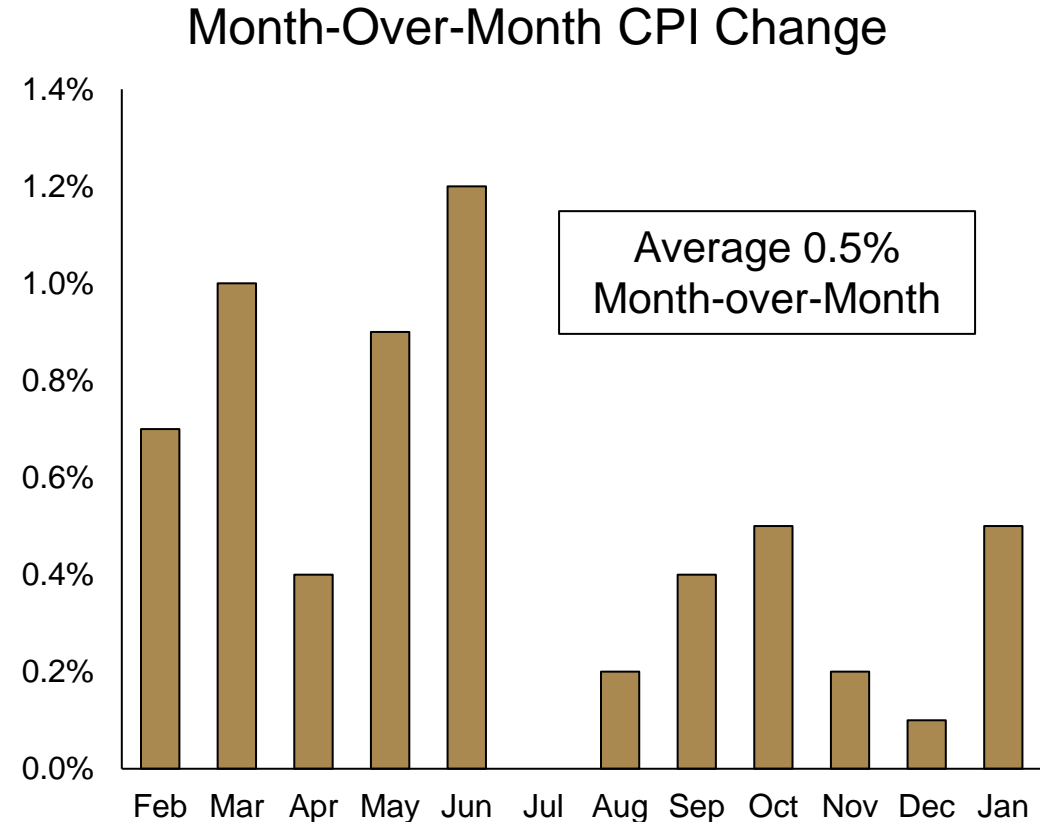
- If USPS is successful in not accruing RHB normal costs...
  - ...cost avoidances are smaller...
  - ...which makes passthroughs artificially bigger...
  - ...which means some discounts could get reduced since passthroughs are over 100 percent...
  - ...and others, which should have increased, won't have to

## First-Class Mail 5-Digit Auto Letters

	FY 2022 ACR	With Normal Costs Accrued
Discount	\$0.036	\$0.036
Avoided Cost	\$0.042	~ \$0.045
Passthrough	85.7%	~ 80%
Does Discount Need to Change?	No	Yes! Must be raised to at least \$0.039

# Looking Far Into the Future

- **January 2024 Increase**
  - If CPI continues, price cap authority will be limited
  - Range 1.6% - 2.4%
  - And of course, no density or retirement authority
- **July 2024 Density**
  - Very early in the game
  - But 3 months in, range is 2.4% - 4.5%



# Questions?