



POSTAL NEWS

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U.S. Postal Service Reports Third Quarter Fiscal 2020 Results

- *COVID-19 impacts result in declining mail volumes and increased Shipping and Package volumes*
- *Uncertainty persists concerning the medium to long-term impact to the business, and the agreement on additional borrowing merely postpones the liquidity crisis*
- *Postal Service employees continue to serve the nation during the pandemic*
- *USPS tops [The Harris Poll Essential 100](#) in COVID-19 response*

WASHINGTON - The U.S. Postal Service today reported its financial results for third quarter of its fiscal year 2020, (April 1, 2020 - June 30, 2020), as the COVID-19 pandemic continues to have an unpredictable impact on the economy and the Postal Service.

Quarantines, stay-at-home orders, and travel and logistics restrictions in connection with the outbreak have affected retail and commercial customers, as well as suppliers and mail service providers. The Postal Service relies on the sale of postal products and services to fund its operations and is significantly impacted by factors including, but not limited to, overall customer demand, the mix of postal services and contribution associated with those services, and the volume of mail and packages processed through its network.

As a result of the pandemic, and to a lesser extent, secular mail declines, the Postal Service's sales from mail services, its largest sales category, continued to significantly decline during the third quarter. Meanwhile, the Postal Service's sales from Shipping and Packages experienced substantial growth as a result of the surge in e-commerce driven by the COVID-19 pandemic, and we expect this surge to abate as the economy opens. However, the package volume increases drove substantial increases in workhour and operating expenses.

The ability to borrow an additional \$10 billion under the CARES Act addresses the Postal Service's near-term liquidity crisis but does not address the Postal Service's broken business model. It merely postpones the impending liquidity crisis and the borrowings must be repaid in a period where cash shortages are forecasted.

In addition to increased labor costs to support this volume increase, transportation expenses were impacted as logistics restrictions and limitations associated with the pandemic led to fewer modes of available transportation, especially air transportation. Furthermore, the pandemic significantly increased the Postal Service's expenses for supplies and services, such as personal protective equipment (PPE), and also increased paid sick leave, including new leave authorized by the *Families First Coronavirus Response Act*, enacted as Public Law 116-127 (FFCRA). The FFCRA provides the means for companies and other government entities to receive federal reimbursement for payment of this FFCRA leave, however, the Postal Service is not eligible for such reimbursement.

The Postal Service reported total revenue of \$17.6 billion for the third quarter of fiscal 2020, an increase of \$547 million, or 3.2 percent, compared to the same period last year.

Compared to the same quarter last year, Marketing Mail revenue declined by \$1.4 billion, or 37.2 percent, on a volume decline of 6.4 billion pieces, or 36.4 percent. First-Class Mail revenue decreased by \$373 million, or 6.4 percent, on a volume decline of 1.1 billion pieces, or 8.4 percent. Secular declines in mail have continued to negatively affect mail revenue and volume, and those declines have been significantly exacerbated by the effects of the COVID-19 pandemic.

Meanwhile, Shipping and Packages revenue increased by \$2.9 billion, or 53.6 percent, on a volume increase of 708 million pieces, or 49.9 percent, compared to the same quarter last year. In the near term, the Postal Service anticipates that these trends will continue given the surge in e-commerce as many Americans stay home due to the COVID-19 pandemic. The Postal Service has and will continue to serve its customers during this crisis through the delivery of medicine, essential consumer staples, benefits checks, and important information, but does not expect its package revenue growth over the medium to long term to make up for its losses in mail service revenue caused by COVID-19.

"Significant declines in our mail volumes as the result of the pandemic were largely offset by corresponding growth in our package business, but the reality remains that the Postal Service is in a financially unsustainable position absent significant fundamental change," said Postmaster General and Chief Executive Officer Louis DeJoy. "As we work on a plan to ensure our future, we will continue to focus on efficiency and revenue growth opportunities while delivering vital services for the country, and our dedicated employees on the front line continue to provide trusted, safe and secure service. Despite our very significant challenges, I remain optimistic about the future of the Postal Service, but we need to get moving to effect change immediately."

Total operating expenses were \$19.8 billion for the quarter, an increase of \$477 million, or 2.5 percent, compared to the same quarter last year. Compensation and benefits expense increased by \$632 million, or 5.5 percent, primarily due to package growth, contractual wage increases and an increase in paid leave, including the newly authorized FFCRA leave. Retiree health and retirement benefits expenses increased by \$172 million, or 19.7 percent, and \$233 million, or 15.8 percent, respectively, driven by revised actuarial assumptions outside of management's control. These increases were partially offset by a decline in workers' compensation of \$885 million due to an increase in interest rates, also outside of management's control.

The net loss for the quarter was \$2.2 billion compared to a net loss of \$2.3 billion for the same quarter last year. The controllable loss for the quarter was \$1.5 billion, compared to a controllable loss of \$1.1 billion reported for the same quarter last year.

"The strong growth of our package volume in the third quarter was encouraging, but there is great uncertainty about whether that growth will be sustainable," said Chief Financial Officer Joseph Corbett. "At the same time, First-Class Mail and Marketing Mail have seen deep volume declines associated with the pandemic, and that lost volume may never return, as was the case following the Great Recession of 2007-2009. We cannot let the recent growth of our package business mask our underlying business model problems, and we are redoubling our efforts to develop a plan to ensure our viability to provide universal service to all of America."

Third Quarter Fiscal 2020 Operating Revenue and Volume by Service Category Compared to Prior Year

The following table presents revenue and volume by category for the three months ended June 30, 2020, and 2019:

	Revenue		Volume	
	2020	2019	2020	2019
<i>(revenue in \$ millions; volume in millions of pieces)</i>				
Service Category				
First-Class Mail	\$ 5,481	\$ 5,854	12,007	13,101
Marketing Mail	2,427	3,862	11,240	17,673
Shipping and Packages	8,311	5,412	2,128	1,420
International	490	604	140	202
Periodicals	244	302	980	1,183
Other	686	1,052	75	85
Total operating revenue and volume	\$ 17,639	\$ 17,086	26,570	33,664

Selected Third Quarter Fiscal 2020 Results of Operations and Controllable Loss

This news release references *controllable loss*, which is not calculated and presented in accordance with accounting principles generally accepted in the United States (GAAP). Controllable loss is defined as net loss adjusted for items outside of management's control and non-recurring items. These adjustments include workers' compensation expenses caused by actuarial revaluation and discount rate changes, and the amortization of Postal Service Retiree Health Benefits Fund (PSRHBF), Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) unfunded liabilities.

The following table presents selected results of operations, reconciles GAAP net loss to controllable loss and illustrates the loss from ongoing business activities without the impact of non-controllable items for the three months ended June 30, 2020, and 2019:

<i>(results in \$ millions)</i>	2020	2019
Operating revenue	\$ 17,639	\$ 17,086
Other revenue	1	7
Total revenue	\$ 17,640	\$ 17,093
Total operating expenses	\$ 19,810	\$ 19,333
Interest and investment income (expense), net	(40)	(16)
Net loss	\$ (2,210)	\$ (2,256)
PSRHBF unfunded liability amortization expense ¹	158	42
Change in workers' compensation liability resulting from fluctuations in discount rates	(55)	697
Other change in workers' compensation liability ²	(95)	9
CSRS unfunded liability amortization expense ³	450	360
FERS unfunded liability amortization expense ⁴	321	239
Change in normal cost of retiree health benefits due to revised actuarial assumptions ⁵	(113)	(168)
Controllable loss	\$ (1,544)	\$ (1,077)

¹ Expense for the annual payment due to OPM by September 30 of the respective year, as calculated by OPM, to amortize the unfunded PSRHBF retirement health benefit obligation. 2020 and 2019 amounts are based on OPM's invoices for the respective years, each reflecting updated discount rate assumptions. Payments are to be made through 2056 based on OPM invoices.

² Net amounts include changes in assumptions, valuation of new claims and revaluation of existing claims, less current year claim payments.

³ Expense for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded CSRS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made through 2043 based on OPM invoices.

⁴ Expense for the annual payment due to OPM by September 30 of the respective fiscal year, to amortize the unfunded FERS retirement obligation. The 2020 amounts are based on updated Postal Service estimates resulting from revised actuarial assumptions. Payments are to be made over a 30-year rolling period based on OPM invoices.

⁵ Represents the accrual for the portion of the increase in the annual normal cost payments due September 30, 2020, and 2019, attributable to revised actuarial assumptions and discount rate changes, based on OPM's invoices for the respective year. This amount represents the noncontrollable portion of the expense recorded for normal cost of retiree health benefits.

Financial results in the Form 10-Q are available at <http://about.usps.com/what/financials/>.

Forward-Looking Statements

Forward-looking statements contained in this release represent the Postal Service's best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements included in this release use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project" or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report. These risks include, but are not limited to, the effects of COVID-19 on the Postal Service's business, financial condition and results of operations. The Postal Service has no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.