

## ***Signed, Sealed, Privatized: A Case for Reforming the U.S. Postal Service***

### **Executive Summary**

In 2025, the United States Postal Service (USPS) continues to face severe financial losses and declining volume. These issues, met with debt, funding constraints, and outdated infrastructure, have left the agency in an unsustainable position. The USPS has not covered its costs in over 15 years, largely due to a shift from physical to digital communication. Americans are sending more digital mail than ever before, raising questions about the future of the USPS. The following White Paper was written by Baltimore Washington Financial Advisors interns Mya Laliberte and Caylah Kang in fulfillment of a Summer research project. The goal of this paper is to examine the case for privatizing the United States Postal Service, offering economic and social policy recommendations that are non-partisan.

### **The Current System**

The origins of the United States Postal Service (USPS) date back to the founding of the United States Constitution, as the Postal Clause granted Congress the power to establish a postal service. In its early years, the USPS was part of the Treasury Department. By 1812, it operated over 50,000 miles of post roads, and by 1829, annual revenue had grown to \$1.7 million (Encyclopedia Britannica, 2025). The USPS remained a part of the Treasury Department until the Postal Reorganization Act of 1970, which established it as an independent agency within the executive branch (Federal Register, n.d.). This means that the United States Postal Service functions as part of the executive branch but remains independent of direct presidential control. The agency has the authority to establish its own rules and regulations, so long as they align with its Congressional mandate. When enacted, these rules carry the weight of federal law.

As of 2023, the USPS mail volume was 116.2 billion pieces of mail and maintained 166.6

million delivery points. It employed 525,469 career employees and 115,000 non-career employees (United States Postal Service, 2025). Looking to the present day, the USPS's mission is to bind the nation together with a resilient, trusted, and technologically advanced postal infrastructure (U.S. Postal Service, 2025). However, in recent years, the question has arisen of whether the USPS is capable of achieving its intended mission or if privatization is in its future. Some of the main reasons the case for privatization has increased are due to budget deficits, a digital shift, and competition from private companies such as FedEx, Amazon, and UPS.

For the USPS, they posted a net loss of \$9.5 billion in Fiscal Year 2024, up from \$6.5 billion in Fiscal Year 2023. Additional trends towards a shift to digital communication contribute to a decline in the USPS's productivity and financial performance. Governments, businesses, and individuals are rapidly adopting digital billing, online messaging, and e-commerce. However, the USPS argues that a shift to digitization should be done cautiously, as the internet is not available to all citizens, along with several infrastructure and affordability issues (U.S. Postal Service Office of Inspector General, 2011).

The final main issue with the productivity and success of the USPS today is the role of competitors. The USPS has a monopoly on non-urgent delivery, but UPS and FedEx focus on express mail delivery. These private carriers argue that the USPS's subsidized rates create an uneven playing field, allowing little room for competition and growth for private companies. Currently, private carriers capitalize on the USPS's financial difficulties to expand their market share. For example, UPS has invested in infrastructure to serve small and medium-sized businesses, an area where the USPS is lacking. Additionally, FedEx has focused on residential e-commerce delivery, an area where the USPS is traditionally a key player (Wallace, 2021). The following section will dive deeper into these financial, operational, and competitive

disadvantages, which make the case for privatization.

## **The Key Issues**

### *Financial Pressures*

One of the most significant barriers the USPS faces is its financial pressures, primarily its annual deficit and employee pension obligations. In FY 2024, the USPS reported a net loss of \$9.5 billion, up from \$6.5 billion in FY 2023. According to a USPS press release, “Over 80% of our current year net loss is attributed to factors that are outside of management's control, specifically, the amortization of unfunded retiree pension liabilities and non-cash workers' compensation adjustments” (U.S. Postal Service 2025).

**Figure I: (Postal Regulatory Commission, 2024).**

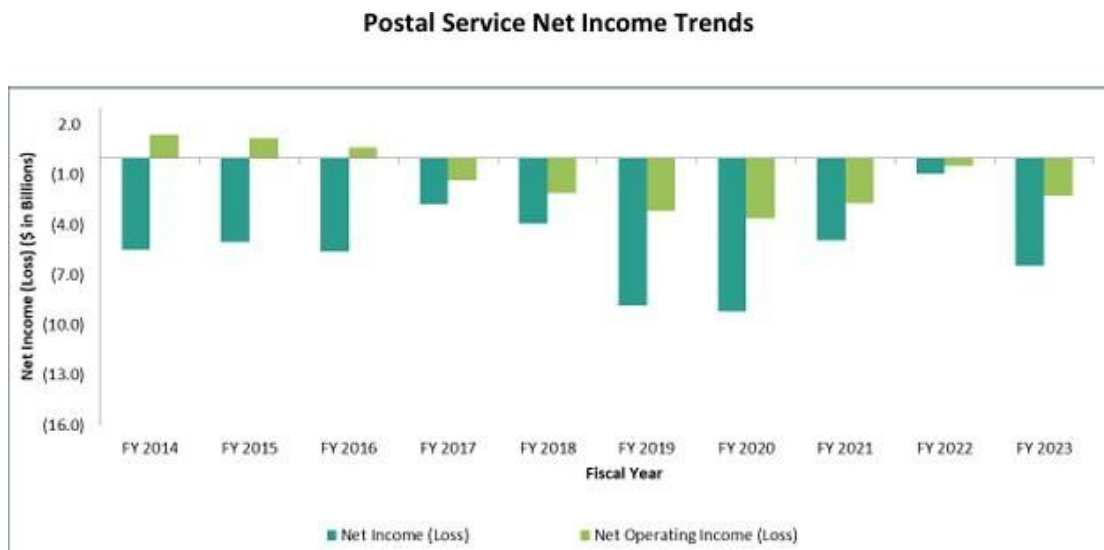
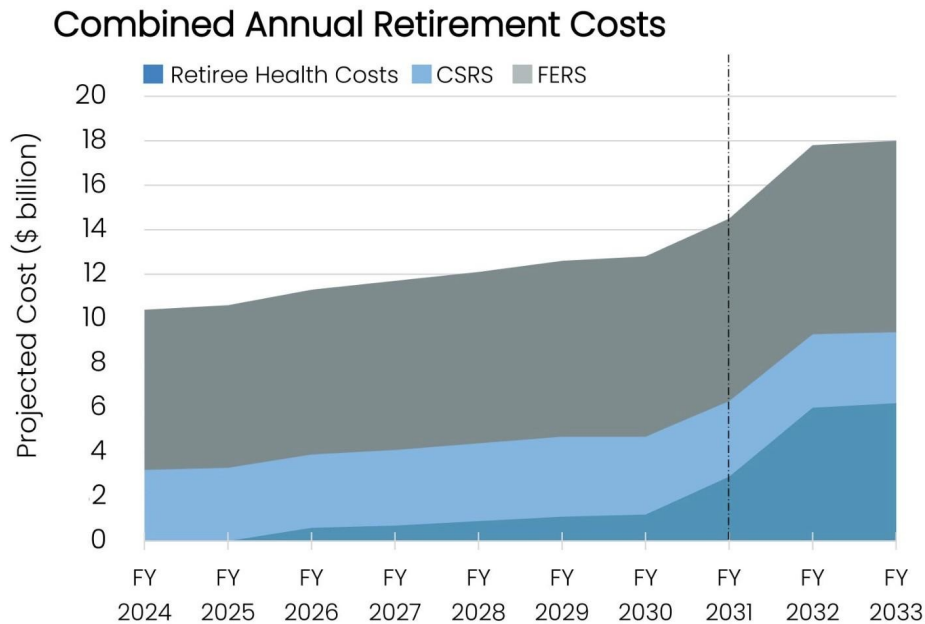


Figure I shows that the Postal Service has not achieved an operating profit over the past seven fiscal years and hasn't reported a positive net income since FY 2006. Even after excluding non-operating expenses (NOEs), it only recorded a net operating gain during three years, 2014 to

2016, when a temporary rate increase was in place. These ongoing financial losses have weakened the Postal Service's overall financial health, leading to a significant imbalance between its assets and liabilities. As of the end of FY 2023, the Postal Service held \$45.3 billion in assets and \$68.4 billion in liabilities (Postal Regulatory Commission, 2024).

Another significant cost for the USPS is its obligation to pay pensions to retired employees. There are currently over 700,000 retired employees relying on these pensions in society today. There are two different types of pension programs that USPS participates in: the Civil Service Retirement Program (CSRS) and the Federal Employees Retirement System (FERS). Additionally, the Postal Service Retiree Health Benefits Fund (PSRHBFB) aids in funding health insurance premiums. What makes the USPS so unique is that while most federal agencies receive Congressional funds toward retirement programs, the USPS is required to pay with agency revenue. These costs are not insignificant, as in 2023 alone, pension-related expenses totalled \$10 billion. Furthermore, the USPS retirement funds have an *unfunded liability*, in that their current funds are not enough to cover future costs (U.S. Postal Service Office of Inspector General, 2024).

**Figure II: (U.S. Postal Service Office of Inspector General, 2024).**

*Figure II* offers a visual representation of this growing issue, showing that the USPS predicts combined retirement-related costs will be more than \$10 billion in 2024, \$14.5 billion by 2031, and \$18 billion by 2033 (U.S. Postal Service Office of Inspector General, 2024). The fact that the USPS is an agency of the government rather than being privatized contributes to this growing problem. Due to the USPS's government status, they are only allowed to invest their retirement funds in Treasury securities, which are stable investments that generate lower rates of return. This is a significant contributor to the USPS's unfunded retirement liabilities, which more than doubled between 2007 and 2022. If the Postal Service had been permitted to diversify its investments from the beginning, *which it would have if privatized*, it could have achieved consistent annual surpluses. Previous analysis indicated that a portfolio consisting of 60% stocks and 40% bonds might have generated cumulative surpluses, including nearly \$963 billion in FY 2021 alone (U.S. Postal Service Office of Inspector General, 2024).

### ***Operational Inefficiencies***

Despite ongoing modernization efforts, the United States Postal Service (USPS) continues to face deep-rooted operational inefficiencies largely stemming from its sprawling bureaucratic structure. Initiatives such as delivery optimization technologies, fleet upgrades, and the adoption of Lean Mail Processing principles have been implemented, yet Total Factor Productivity (TFP) has remained mostly flat in recent years. Rising costs are further exacerbated by the increasing number of delivery points and deteriorating infrastructure. Additionally, USPS's broad public service mandate often slows the pace of change, making large-scale improvements difficult to implement. Some advocate for privatization—or partial privatization—as a solution, suggesting that market competition could accelerate efficiency, cost control, and innovation. However, this approach carries trade-offs. A profit-driven USPS might deprioritize rural service, raise delivery costs, or eliminate key public functions such as secure mail delivery and emergency response support. Therefore, any privatization effort would require robust regulation to preserve USPS's public mission while encouraging operational improvements.

USPS's "Network Modernization" plan underscores how outdated infrastructure continues to impede efficiency, contributing to delays and increased costs. The current system relies heavily on aging vehicles, fragmented mail processing facilities, and a delivery network that was designed for higher mail volumes of the past. In response, the agency is restructuring logistics with new Regional and Local Processing Centers, upgrading its fleet with electric vehicles, and shifting from air to optimized ground transportation. These reforms aim to streamline operations and improve delivery reliability, but also highlight how far the current system lags behind modern logistics standards (United States Postal Service, n.d.).

Furthermore, USPS remains burdened by a legacy infrastructure that includes obsolete

mail-sorting equipment and delivery vehicles that are decades old. Frequent breakdowns and high maintenance costs hinder service efficiency and increase operating expenses. Antiquated machinery in mail processing centers also limits delivery compared to the advanced systems used by private carriers. Combined with inefficient route management and administrative inertia, these factors continue to undermine service reliability and financial performance. Without substantial investment and continued modernization, USPS risks falling further behind customer expectations in a rapidly evolving e-commerce landscape (GovFacts, n.d.).

### ***Innovation and Competition***

Privatization advocates argue that transitioning USPS to a private or partially privatized model could unlock modernization by granting it greater operational flexibility and access to private capital. Freed from restrictive legislative mandates and the burden of seeking Congressional approval for innovation, a privatized USPS could potentially invest more rapidly in advanced technology, automation, and digital infrastructure—key components for competing in today’s e-commerce and logistics-driven market. Additionally, competition would likely compel a privatized USPS to streamline services, accelerate innovation, and improve delivery performance. However, the Brookings Institution highlights that while privatized postal services in Europe often achieved higher profitability, this came with trade-offs—namely, steeper declines in mail volume, service reductions in rural areas, and price increases. Moreover, many privatized postal operators still rely on strong regulatory oversight and public service mandates to maintain equitable service. Therefore, while privatization might accelerate modernization, it must be carefully structured to avoid compromising USPS’s essential public service mission (Patel and Rajan, 2025).

### **Proposal: The Case For Privatization**

As of FY 2024, the United States Postal Service reported total liabilities of \$78.2 billion.

This includes \$15 billion in debt to the Federal Financing Bank, the maximum allowed under its statutory cap, approximately \$27.3 billion in unfunded retirement obligations, and \$14 to \$16 billion in workers' compensation liabilities, along with several billion in deferred commitments. Together, these liabilities have contributed to a net deficit of \$32.6 billion (Postal Regulatory Commission, 2024), highlighting the urgent need for comprehensive structural reform to ensure long-term financial sustainability.

We propose a model of partial privatization as a potential solution to address these fiscal challenges. Under this model, the USPS would be sold in equal parts to two established private-sector companies: Federal Express (FedEx) and United Parcel Service (UPS). This approach leverages their advanced logistics networks, data-driven operations, and history of profitability while halting the accumulation of further USPS debt. These companies already partner with USPS for last-mile deliveries, making them uniquely positioned to scale operations without service disruption. To maintain accountability and safeguard public interests, we recommend retaining a small federal oversight committee, creating a hybrid structure that balances private efficiency with public oversight. This committee would monitor service quality, enforce universal access mandates, and ensure affordability in rural and underserved areas, preventing potential cost-cutting measures that could reduce essential services. This blended model offers the potential for long-term financial stability without sacrificing the USPS's core mission of universal service. Additionally, because the USPS already operates as an independent agency within the federal government, its existing administrative autonomy and legal structure could help streamline the transition, reducing bureaucratic friction and facilitating integration with private-sector partners.

#### ***Policy Recommendation— Conservative Approach***

Although the USPS currently carries over \$78 billion in liabilities, its real estate assets are

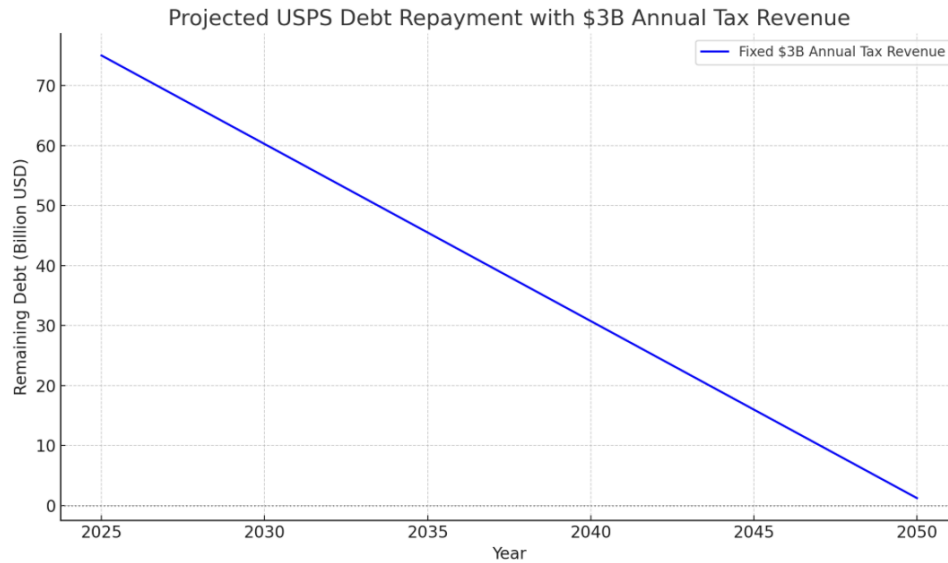


estimated to be worth approximately \$81 billion (Wells Fargo, 2025). Rather than basing the sale on net equity—which would be negligible after accounting for liabilities—we propose valuing USPS according to its operational assets and its strategic role in national logistics. Under our partial privatization model, FedEx and UPS would each acquire a 50% stake in USPS operations for \$1.5 billion, totaling \$3 billion in direct sale proceeds. This figure reflects the value of USPS’s delivery network, infrastructure, and brand—distinct from its liabilities, which would remain with the federal government. Real estate assets may be sold separately or retained to further offset debt.

In addition to the initial sale revenue, a privatized USPS—now subject to the 21% corporate tax rate—would generate between \$2.5 to \$3.5 billion in annual tax revenues based on FY 2024 financials (Downsizing Government, 2025). This includes an estimated \$1.5 billion in federal taxes and \$1–2 billion in state taxes. Importantly, FedEx and UPS would not assume USPS’s existing debt; instead, the federal government would repay it using the \$3 billion in sale proceeds and ongoing corporate tax revenues.

We recommend allocating these new tax revenues toward two key priorities: (1) gradual repayment of USPS’s existing debt, and (2) funding a federal oversight committee—at an estimated \$50 million annually—to enforce compliance, conduct audits, and safeguard public service obligations. After deducting oversight costs, the remaining revenue would be applied to the debt. Under this fiscally conservative model—designed to halt further debt accumulation while maintaining regulatory oversight—we project full repayment of USPS’s debt within approximately 25 years.

**Figure III: (USPS Debt Repayment– Conservative Model).**



***Final Policy Recommendation– Aggressive Approach***

Building on the partial privatization model outlined above, we propose an additional model that involves a more aggressive approach to eliminating the USPS’s \$78.2 billion debt within a shortened 5.6-year timeframe. In this expanded model, USPS operations would be sold equally to FedEx and UPS for a combined \$3 billion. This amount reflects the value of USPS’s explained above—not its real estate holdings or liabilities, which remain under federal control. To generate additional capital, the federal government would retain ownership of USPS’s real estate assets, which are estimated to be worth between \$85 billion–100 billion (Wells Fargo, 2025). From this portfolio, we suggest approximately 20% of properties be sold to UPS and FedEx, particularly those in overlapping urban areas where UPS and FedEx are lacking pre-existing infrastructure. This partial sell-off is projected to raise \$20 billion in immediate revenue. In addition to the \$3 billion sale and \$20 billion real estate sale, we recommend a one-time \$7 billion privatization premium paid by FedEx and UPS. This reflects the strategic advantage they gain from acquiring USPS’s national

infrastructure, customer access, and quasi-monopolistic delivery role. These three sources, the \$3 billion sale, \$20 billion in real estate proceeds, and \$7 billion premium, would generate a total of \$30 billion in upfront capital to begin reducing USPS's debt.

To ensure continued progress toward full repayment, we propose three recurring revenue streams:

**Corporate Tax Revenue:** A privatized USPS would no longer be tax-exempt and would be subject to the federal corporate income tax. Based on projected profitability under private ownership and the 21% tax rate, this is expected to generate approximately \$3 billion annually.

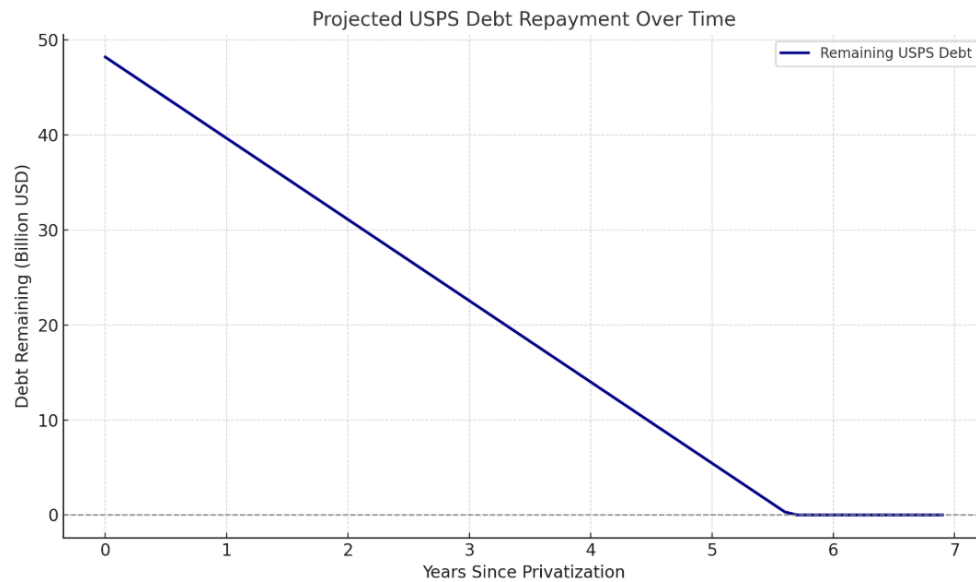
**Recovered Federal Subsidy Value:** As a government agency, USPS benefits from indirect subsidies such as exemptions from property taxes, vehicle registration fees, and access to below-market borrowing rates from the U.S. Treasury. While these are not direct appropriations, they represent significant foregone revenue and cost advantages. Estimates suggest these implicit subsidies total approximately \$2.6 billion annually (Shapiro 2015). Following privatization, these advantages would no longer apply, allowing the government to recover this value and potentially redirect it toward USPS debt repayment or reinvestment in transitional infrastructure.

**Infrastructure Access Fees:** Although FedEx and UPS have their own logistics networks, USPS maintains unique federal assets such as the national address database, ZIP Code system, mailbox infrastructure, and proprietary routing technologies. Rather than transferring ownership of these assets, we propose licensing them to the new operators at a combined cost of \$3 billion per year. This preserves public control while generating sustainable debt repayment income.

After allocating \$50 million annually to fund a federal oversight committee responsible for service quality, pricing regulation, and rural access mandates, this model would yield a net \$8.55 billion per year for debt reduction. Combined with the \$30 billion in upfront revenue, the USPS's

\$78.2 billion in outstanding liabilities could be fully eliminated in approximately 5.6 years. This strategy offers a fiscally responsible and operationally realistic pathway to stabilize the Postal Service, while maintaining accountability, protecting essential services, and ensuring the long-term sustainability of its public mission.

**Figure IV: (USPS Debt Repayment– Aggressive Model).**



## Conclusion

The United States Postal Service has long been a foundational institution in American Society, but it now faces a critical crisis of sustainability. Years of financial losses, increasing liabilities, outdated infrastructure, and rising competition from private carriers have pushed the USPS to a tipping point. Despite various modernization efforts, the agency continues to struggle under the weight of an inflexible bureaucratic structure and limited revenue growth. As our analysis shows, without significant structural reform, the USPS risks further decline, both financially and operationally.

While the conservative model offers a gradual path to debt elimination over approximately

22–25 years, it relies solely on modest annual tax revenues from privatized USPS operations and assumes a steady, long-term federal oversight structure. This approach minimizes disruption and preserves public service continuity, but delays fiscal resolution and forgoes the opportunity to unlock the full asset value of USPS. For these reasons, we ultimately recommend the more aggressive model, which accelerates debt repayment, maximizes upfront capital, and provides a stronger strategic framework for integrating USPS into the private logistics sector. This model would harness the operational expertise and innovation of private sector leaders like FedEx and UPS, while maintaining essential government oversight to protect the public interest. This hybrid approach would ensure that essential services, especially in rural and underserved communities, remain accessible and affordable. It would also protect existing jobs, uphold service reliability, and safeguard consumer interests through regulatory standards.

Our proposed model incorporates both immediate and long-term strategies to pay down the USPS's \$78.2 billion in debt. Through an initial \$30 billion generated by partial asset sales, a privatization premium, and a shared buyout by FedEx and UPS, paired with an annual repayment plan supported by taxes, redirected subsidies, and access fees, we estimate full debt repayment in approximately 5.6 years. This is a substantial improvement over passive or gradual reforms and offers a path toward long-term financial stability while maintaining transparency and accountability.

Privatizing the USPS is not a matter of politics, but of sustainability, efficiency, and modernization. Our goal is to preserve the USPS's essential role in American life while addressing the realities of a rapidly changing economic and technological landscape. By taking a pragmatic, nonpartisan approach, we believe this proposal delivers a fiscally responsible, socially equitable, and operationally effective future for the United States Postal Service.

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