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USPS Heading Towards Bankruptcy

If the United States Postal Service (USPS) were an ordinary private company, it would have filed for Chapter 11 bankruptcy already. With the massive drop of about 6 billion in mails, especially from first class, they lost about \$8.5 billion in the fiscal year ended September. The USPS said it would run out of money in 2011 if Congress doesn't step in to rescue them in the event the economy does not recover.

The USPS now delivers some 170.6 billion pieces of mail per year.

Contributions of about \$5.4 billion towards pre-fund retiree health benefits and another \$2.5 billion to the government's workers' compensation insurance scheme also led to the poor financial performance. Because USPS is a quasi-government organization, it has workers' compensation obligations to help fund four major disability compensation programs.

The USPS has a \$15 billion credit line available to it which it has utilized up to \$11.5 billion already. It intends to borrow the remaining \$3.5

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billion to stay afloat. Even with this injection of funds, the USPS will likely go broke at the end of fiscal year 2011 unless Congress acts to save them.

Over the last 2 years, the USPS has laid off about 105,000 full-time workers and cut costs by \$9 billion. Its Chief Financial Officer, Joe Corbett said they will continue to be frugal and take measures to improve efficiency while hoping there would be changes in legislation, regulations and labor contracts in their favor.

The USPS' situation is that as long as they remain a quasi-government organization, they are not at liberty to take measures to reform that other ordinary businesses could. They are bound by government regulations and union agreements that force them to pay workers even though they don't work. In fact, the USPS spends more than \$1 million per week paying thousands of workers who sit in empty rooms doing nothing (a practice known as 'standby time'). According to postal officials, the amount of standby time averages about 45,000 hours per week which is equivalent to having 1,125 full-time workers idling, at a cost of more than \$50 million a year.

A drop of 12.6% in mail volume compared to last year means that postal supervisors do not have enough work to keep employees busy. To make things worse, union agreements stipulate that the USPS cannot lay off any surplus employees and even temporarily prohibits them being re-assigned to other departments that need them. So they sit there, some for their

entire shifts. Some 15,000 employees have spent time on standby this year.