



*June 2016*

## ***Neither Rain, no Sleet nor Snow...***

Every fiscal year since 2007, the United States Postal Service has suffered severe deficits. Over that time, the USPS has lost a staggering total of nearly \$60 billion and has defaulted on its outstanding debts four times. Altogether, the USPS has accumulated approximately \$125 billion in unpaid liabilities and debts.

If the USPS continues to incur losses at this rate, it seems as if it will quickly become insolvent. Since the USPS is the one of the largest employers in the nation and accounts for nearly half of all mail delivered in the world, saving the USPS is extremely important.

The convenience and cost effectiveness of digital communication have been causing a decline in first-class mail delivery for the past 15 years. (U.S. first-class mail has decreased by nearly 40 percent since it peaked 2001.) Meanwhile, both FedEx and UPS have grown to dominate the package delivery service, nearly doubling their net operating incomes since 2003. On top of these normal business challenges, the Great Recession also hurt profit margins, with 2006 being the last year the USPS was able to turn a profit.

In addition to the decline in total revenue, the USPS has had to pay \$5.5 billion per year for the Postal Service Retiree Health Benefits Fund for the past 10 years. The combination of this legally-required payment, pension payments, crippled economy and compounding operational deficits has put the USPS in a bind.

### **What it Means for the USPS:**

The USPS is going to amortize the payments it defaulted on and will be repaying them back over a 40-year span. This will ensure that the employees of the USPS have an

adequately funded retirement while also giving financial relief to the USPS by spreading out the payments.

The USPS has already gone through major operational changes in order to minimize costs and lighten some of the losses it is experiencing. It has reduced its workforce by 200,000, consolidated its mailing points, cut 331 million workhours and reduced employee benefits. These cuts save an estimated \$15 billion per year.

The USPS also expects that the required enrollment to Medicare for retirees over 65 years old is going to greatly aid its financial situation. It estimates that the cost reduction over the next 10 years because of the required enrollment will be roughly \$38 billion in total annual expenses and nearly \$54 billion in retiree health benefit liabilities.

In addition to cutting additional jobs and reducing pay, the USPS is looking into other cost-cutting methods to help get its finances back in the black, such as replacing door-to-door delivery with curbside delivery and only delivering mail on weekdays. Despite these changes, the U.S. Bureau of Labor Statistics still projects that the USPS will continue to minimize operating costs by downsizing and could lose an additional 165,000 jobs by 2024.

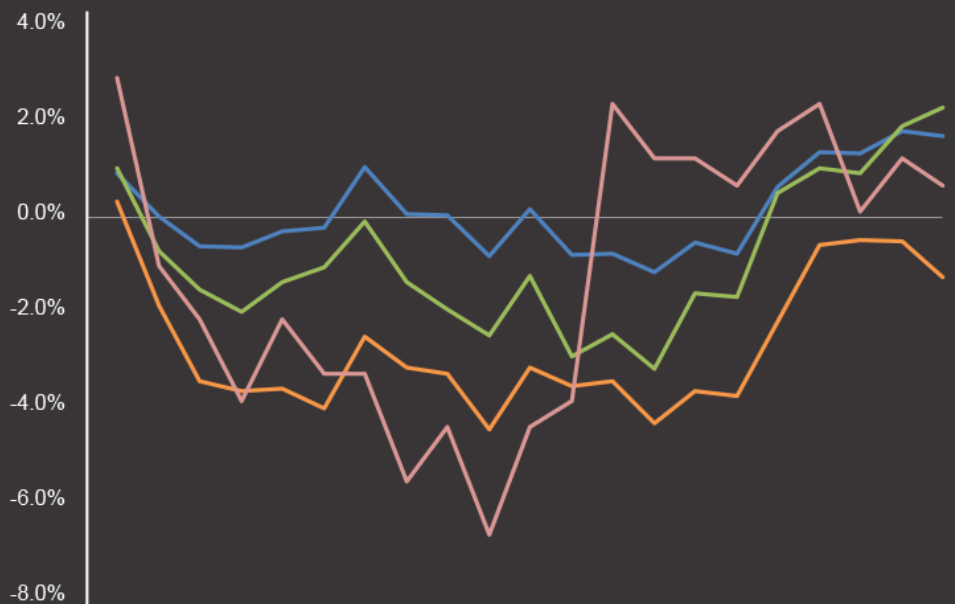
The silver lining for the USPS is that the full \$5.5 billion for its required annual pre-payments will cease at the end of this year. Even given the amortized payments, taking the prepayments off the books could result in net positive revenues moving forward if operational profit margins stay consistent. Compounded with cutbacks in operating expenses, brighter days may be ahead for the world's largest mail distributor.



# the market at a glance

## MAY

<span style="color: #0070C0;">■</span> <b>U.S. Large Cap</b> (S&P 500)	<b>2,096.96</b> (1.53%) ▲
<span style="color: #92D050;">■</span> <b>U.S. Mid/Small</b> (Russell 2000)	<b>1,154.79</b> (2.12%) ▲
<span style="color: #FF9900;">■</span> <b>International Large</b> (NYSE International 100)	<b>4,732.62</b> (-1.33%) ▼
<span style="color: #E91E63;">■</span> <b>U.S. Treasuries</b> (U.S. 10-Year Treasury Yield Rate)	<b>1.85</b> (0.55%) ▲



## The market in action

- The Puerto Rican government fails to make over \$420M in bond payments at the beginning of May, a symptom of a severe debt crisis that economists and bond traders have been watching for several months.
- Google-owner Alphabet Inc. announces it will ban ads for payday loan services on its search engine results page. The ban follows months of negative press and public criticism for payday loan companies and fits within Google's well-known practice of blacklisting ads for things it considers unethical.
- Charter Communications Inc. gets final approval for its \$65B acquisition of Time Warner Cable and Bright House Networks LLC. When combined under the Charter brand, the companies will form the second largest internet provider in the United States.
- Australian computer scientist Craig Wright identifies himself as the creator of the digital cryptocurrency Bitcoin. Despite receiving coverage from many news outlets, Wright has yet to provide proof he is the actual creator, who has operated under the pseudonym "Satoshi Nakamoto" since 2008.
- Retail and grocery giant Kroger Company begins a massive hiring campaign to fill more than 14,000 new and existing positions at its various supermarket chains across the country.
- Consumer prices, spending and personal income show strength in their April data reports, rising significantly from the month prior and signaling economic health. Most notably, consumer spending rose 1 percent in April from the previous month—the fastest growth in more than six years.
- Despite already working through a layoff that will terminate 10,000 jobs, Royal Dutch Shell announces it will be cutting an additional 2,200 positions as it attempts to deal with persistently weak oil prices.
- French tax investigators execute a surprise raid of Google's Paris offices, claiming the search giant has avoided paying more than \$1B in taxes to the French government.

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# *The Importance of Having a Will*

The According to a 2014 survey, 51 percent of Americans age 55-64 (and 62 percent of Americans age 45-54) don't have a will. The reasons for not maintaining a will can range from a lack of urgency to a paralyzing fear of death. Not only is having a will necessary, the effects of dying without having a will—called dying “intestate”—may be worse than you expect.

## The Dangers of Dying Intestate

### **Estate Shrinkage**

It is normal for estates to lose some of their value to final costs, such as burial/funeral expenses and outstanding debts. However, lengthy court procedures and legal fees attributed to resolving inheritance disbursement can quickly erode a large part of an estate's net worth. Wills are created for the benefit of survivors; not having one reduces the amount that passes to the heirs.

### **Family Disputes and Disagreements**

Disagreements regarding an estate can easily cause rifts in families. Arguments over who deserves specific heirlooms or property can be exacerbated when the wishes of the decedent are not directly known. In extreme circumstances, these kinds of disputes can last for decades, making a will essential—especially when families are large or relationships are strained.

## Drafting a Will

### **Inexpensive and Quick Process**

Creating a will is not expensive, with some estimates putting the cost at just a few hundred dollars if done through a lawyer. Additionally, there are legal websites that allow individuals to draft their own wills at a fraction of that cost. Whichever method is used, creating a will typically takes less time to complete than most people think.

## Benefits of a Will

### **Control over Assets**

The decedent may have specific desires regarding which of their family members get their possessions. Instead of the distribution of assets being decided by another family member or possibly the legal system, having a will allows the decedent to fully control where all assets will be distributed.

### **Choose Executor of Will**

If there is no will, and subsequently no executor named, the individual that is chosen by the probate court may not act according to the decedent's desires. Choosing the executor of a will ensures that the individual that the decedent thinks will best serve his or her wishes will be in charge of key decisions, handling conflicts and proper care of the estate.

## **Custody of Children**

If the decedent has children, but has not named a new guardian in a will, the courts will decide who gets custody of their children. Although judges consider living situations and familial relations while trying to act in the best interest of children, they can't possibly know every detail about each family's unique situation and there is no guarantee that a court-appointed guardian will be the same person the decedent's would have wanted.

## Now is the Time

### **Peace of Mind**

Thinking about death may be frightening, but the thought of leaving confusion, lack of clarity and potential disputes behind can be even more unsettling. Creating a will allows individuals to know that, when they pass away, all of their wishes will be honored and their loved ones will be free from the burden of figuring out the details of an estate.

### **Keep it Updated**

If you already have a will, consider revisiting and, if necessary, updating it. There may have been financial, legal or personal life changes that are not yet reflected by the current version of your will. Not having a will can create confusion, but having an outdated will that gives rights to a former spouse or estranged family members can be disastrous for intended heirs.



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