BACKGROUND ON RETIRED COAL MINERS' HEALTH BENEFITS

Scheduled for a Hearing

Before the

SUBCOMMITTEE ON MEDICARE AND LONG-TERM CARE

of the

SENATE COMMITTEE ON FINANCE

on September 25, 1991

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

September 24, 1991

JCX-18-91

CONTENTS

	Page
INTRODUCTION	1
RETIRED COAL MINERS' HEALTH BENEFITS..................	2

INTRODUCTION

The Subcommittee on Medicare and Long-term Care of the Senate Committee on Finance has scheduled a public hearing on September 25, 1991, on health benefits of retired coal miners.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides background regarding the United Mine Workers of America health and retirement funds, with emphasis on the health funds, including a general description of the funds, the financial status of the health funds, and the findings of the Coal Commission regarding financing of the health funds.

---

[1] This document may be cited as follows: Joint Committee on Taxation, Background on Retired Coal Miners' Health Benefits (JCX-18-91), September 24, 1991.

RETIRED COAL MINERS' HEALTH BENEFITS

United Mine Workers of America Health and Retirement Funds

The United Mine Workers of America (UMWA) health and retirement funds were established in 1974 pursuant to an agreement between the UMWA and the Bituminous Coal Operator's Association (BCOA) to provide pension and health benefits to retired coal miners. The funds have been maintained for this purpose through a series of collective bargaining agreements. The funds created in 1974 were a restructuring of the original benefit fund, which was established in 1946.

The funds consist of four different plans, each of which is funded through a separate trust. The 1950 Pension Plan provides retirement benefits to miners who retired on or before December 31, 1975, and their beneficiaries. The 1950 Benefit Plan provides health benefits for retired mine workers who receive pensions from the 1950 Pension Plan and their dependents. The 1974 Pension Plan provides retirement benefits to miners who retire after December 31, 1975, and their beneficiaries. The 1974 Benefit Plan provides medical benefits to miners who retired after 1975. It also provides benefits to miners whose last employers are no longer in business or, in some cases, no longer signatory to the National Bituminous Coal Wage Agreement (NBCWA). These miners are referred to as orphans.[2]

Financial Status of the Benefit Trusts[3]

Sources of funds

The Pension and Benefit Trusts are generally funded by contributions made by signatories to the NBCWA. The amount of required contributions is set forth in the relevant agreements. One of the matters under debate by the parties is the extent to which there are contribution obligations in addition to those imposed under the current NBCWA, with respect to both parties who are and who are not signatories to the current agreement.

One of these issues relates to the so-called guarantee clause of the NBCWA. Under this clause, certain health

---

[2] These are the basic benefits provided under each plan. Certain other benefits, such as disability benefits, may also be provided.

[3] Information on the financial status of the trusts is from the Report of the Advisory Commission on Mine Workers Retiree Health Benefits (the Coal Commission Report), November 1990.

benefits are guaranteed, and the BCOA has the authority to increase the rate of contributions to pay for benefits. The extent to which the BCOA is required to do so is currently the subject of litigation. Last year the District Court for the District of Columbia issued preliminary injunctions requiring the BCOA to increase the contribution rate to both the 1950 and 1974 Benefit Trusts.

Another issue arises under the so-called evergreen clause. The trustees of the Trusts argue that this provision requires former signatories to the NBCWA who still operate to make contributions at the rate established by the 1988 NBCWA. This is also the subject of litigation.

Financial condition

As of July 31, 1990, the 1950 and 1974 Benefit Trusts were estimated to have a combined deficit of $114.7 million. It is estimated that these Trusts will have a combined deficit of $300 million by 1993.

A number of factors have been cited as the cause of the deficit, including factors particular to the coal industry and factors relating to health care in general. In the case of the 1974 Benefit Trust, these factors include the rising cost of health care, a declining base of contributors and an increasing beneficiary base, including the addition of so-called orphan beneficiaries, whose last employers are no longer operating or, in some cases, are no longer signatories to the current NBCWA. The appropriate way of paying for the benefits of such beneficiaries is one of the key issues regarding funding of the Benefit Trusts.

The 1950 Benefit Plan is a closed plan (because it applies only to workers who retired before 1976 and their beneficiaries) and thus is experiencing a falling, rather than increasing, benefit base. However, this Trust is currently significantly underfunded, and is likely to remain underfunded given increases in health care costs, among other factors.

The Coal Commission Report

Overview

Former Secretary of Labor Elizabeth Dole created the Advisory Commission on Mine Workers Retiree Health Benefits (the Coal Commission) on March 12, 1990, to study the health care issues arising under the 1950 and 1974 Benefit Plans and the effect of resolving these issues on the coal industry as a whole.

The Coal Commission issued its report in November 1990. The report contains a detailed analysis of the history of the funds and their financial condition, as well as an analysis of the condition of the 1950 and 1974 Pension Trusts.

The Commission concluded that the Benefit Trusts are adequately administered and that the sources of the deficit go beyond administration. A key issue in addressing funding of the Trusts is how to provide health benefits to orphan retirees. The Commission agreed that the retired miners are entitled to the health care benefits that were promised and that this promise should be honored. Another issue, controlling the cost of health care, is not unique to the coal industry plans, but is a factor leading to the financial problems of the Benefit Trusts. The Benefit Plans were designed to provide generous benefits, and provide essentially first-dollar medical coverage, with no deductibles or copayments.

The Commission agreed on certain actions that should be taken in connection with the funding of the Benefit Trusts, but was unable to reach a consensus on whether the entire industry should contribute to the funding of the benefits for the orphan retirees. Thus, the Commission presented two alternative approaches for a possible long-term solution to this problem. The Commission acknowledged that modifications to either of these solutions may be appropriate and that other plans could also be developed. The Commission's recommendations are summarized below.

<u>Items of consensus</u>

There was a consensus among the Commission that the following actions should be taken.

(1) <u>Contribution obligations.</u>--The Commission agreed that contribution obligations should be imposed by statute on former signatories to the NBCWA, possibly reaching back to the signatory class of 1978. A "controlled group" concept would be pursued, i.e., the obligation might be imposed on all related employers or employers under common control.

(2) <u>Withdrawal liability.</u>--Withdrawal liability should be imposed prospectively on employers to prevent shifting of liability for retirees to employers who have no relationship with the retiree.

(3) <u>Transfer of pension surplus.</u>--The 1950 Pension Trust was estimated to have a surplus of $237 million as of July 1, 1990. The Commission agreed that the surplus should be transferred as part of an overall financing package to fund the deficit in the 1950 and 1974 Benefit Trusts. During a reopening of the bargaining agreement in February 1991, pension benefits were increased under the 1950 Pension Plan. This increase in benefits would reduce the surplus below the $237 million reported for July 1990.

(4) Cost containment and managed care.--Cost containment and managed care measures should be used to control costs. The report contains an outline of such measures.

(5) Re-enrollment of beneficiaries.--Comprehensive certification of beneficiaries is recommended to ensure that benefits are provided only to eligible recipients.

(6) Long-term financing.--Any residual financing requirement should be limited to the smallest level practical. Any obligation imposed on those with no connection to the Benefit Trusts should be at the lowest practical level after those with a contractual or historic connection to the Trusts have contributed, after any pension surplus has been used appropriately, and after managed care and cost containment measures have been implemented.

(7) Flexibility in determining dimensions of the contribution base.--Any broadened contribution obligation should be adopted only after further consideration. Assessments could be calculated based on any number of factors, including hours worked, tons of coal mined, tons of coal imported, BTU content, and past connection with the Trusts. The obligation need not be the same for all operators or all coal.

(8) Sunset provision on financing structure.--A provision which would reevaluate the new health benefits delivery system and financing structure after it has been in effect for some time would be appropriate.

(9) Limited applicability of proposed solutions.--The proposed solutions are not intended as permanent solutions for the coal industry nor are they intended for any other industry.

(10) Extension beyond 1993.--Any financing package must extend beyond 1993. The current NBCWA expires on January 31, 1993.

Funding for orphan retirees

The Commission did not reach consensus on the appropriate method of financing benefits for orphan retirees. Some Commissioners thought that the entire coal industry should provide financing, while others thought the obligation should be limited to current and past signatories to the NBCWA.

Under the industry-wide approach, a Federal Coal Industry Retiree Benefit Fund would be created by statute to provide benefits to miners whose last employer is out of business. This would include both current and future orphan retirees. The fund would be financed by an industry fee applied to all employers in the coal business, including a fee on imported coal.

The alternative approach would collect additional revenues from a broadened base of current and past signatories to the NBCWA. Past obligations would be defined as those arising from firms once signatory who may be identified through a chain of succession to a current operator. The Commission Report contains a more detailed description of this approach.

Some persons disagree with both of the approaches advanced by the Coal Commission, and contend that the current signatories to the NBCWA are capable of paying benefits promised under the Benefit Plans.