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The Honorable Sam Brownback
Chairman, Subcommittee on Oversight of Government
Management, Restructuring, and the District of Columbia
Committee on Governmental Affairs
United States Senate

Subject: Employee Benefits: Status of the UMWA Combined Benefit Fund

Dear Mr. Chairman:

In 1947, the National Bituminous Coal Wage Agreement (NBCWA) established the United Mine Workers of America (UMWA) Welfare and Retirement Fund to provide health and retirement benefits to coal miners and their families. Subsequent agreements eventually led to the creation of trust funds to cover health care benefits.[1] Funded by contributions made by companies who had signed the NBCWA or a similar agreement, these trusts soon encountered financial difficulties. The 1978 amendments to the NBCWA attempted to ensure the trusts' solvency by requiring its signatory companies to make contributions sufficient to maintain the trusts for as long as those firms were in the coal business. As firms left the coal business, however, the remaining signatories were forced to absorb the cost of covering beneficiaries.

In an attempt to stabilize funding and provide benefits to retired coal miners and their dependents, the Coal Industry Retiree Health Benefit Act of 1992 (Coal Act) merged the two existing health-care-related trusts to create the UMWA Combined Fund. Under the Coal Act, any coal mine operators who had ever been required to contribute to these health-care-related trusts were

[1]When the NBCWA was amended in 1974 to comply with the Employee Retirement Income and Security Act of 1974, it created separate trust funds for miners who retired before 1976 and those who retired in or after 1976. Those who retired in or before 1975 were covered under the 1950 Benefit Plan and Trust, while those who retired in or after 1976 were covered under the 1974 Benefit Plan and Trust.

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required to contribute to the Combined Fund. Administered through UMWA Health and Retirement Funds, the Combined Fund provides health and death benefits to individuals who were eligible to receive and receiving benefits from either trust fund on July 20, 1992. In a decision handed down on June 25, 1998, the U.S. Supreme Court stated that the Coal Act was applied unconstitutionally when it was used to require a company that had sold its mining operation in 1987 to fund health benefits for retired mine workers employed by it before 1966.[2] This ruling will likely reduce the number of firms that are required to contribute to the Combined Fund and could reduce fund revenues.

In 1992, we issued a report describing beneficiaries and benefits of the 1950 and 1974 Benefit Plan and Trusts.[3] Additionally, we commented on the funding and solvency of those trusts. You asked us to provide information for your upcoming hearing by updating several sections of our report by answering four questions (as set forth below) on the current state of the Combined Fund. We obtained data from published reports of the UMWA Health and Retirement Funds Combined Benefit Fund and its actuary, interviews with Combined Fund officials, and data from the Social Security Administration. We did not independently verify the accuracy of the data provided to us. Although we did not receive agency comments on this correspondence, we did share our findings with officials from the Combined Fund.

Question 1

What is the current population of beneficiaries?

In 1992, we reported that 116,283 beneficiaries were covered under both the 1950 Benefit Plan and Trust and the 1974 Benefit Plan and Trust. Currently, the Combined Fund provides benefits to 71,337 individuals. Because Combined Fund benefits are only available to individuals who were eligible to receive and receiving benefits on July 20, 1992, the number of beneficiaries declines over time. The number, type, and distribution of beneficiaries is shown in table 1.

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[2]Eastern Enterprises v. Apfel, 118 S. Ct. 2131 (1998).

[3]Employee Benefits: Financing Health Benefits of Retired Coal Miners (GAO/HRD-92-130FS, July 22, 1992).

Table 1: Number of Beneficiaries of the Combined Fund

	Number of beneficiaries	% of beneficiaries
Retired miners	19,055	26.7
Surviving spouses	36,120	50.6
Spouses	13,540	19.0
Other beneficiaries	2,662	3.7

Other beneficiaries include parents of mine workers, unmarried children of mine workers under the age of 22, unmarried dependent grandchildren under the age of 22, dependent children of any age who are mentally impaired or disabled before the age of 22, and surviving dependent children of deceased miners.

Question 2

Describe the medical benefits provided to all classes of beneficiaries under the Combined Fund (including prescription drugs, pregnancy termination, contraceptives, and mental health benefits). To what extent do benefits provided by the fund represent the beneficiaries' primary medical coverage or do the benefits supplement other medical benefits? If the latter, what other medical benefits do the beneficiaries receive?

The Combined Fund provides beneficiaries with the array of medical benefits listed in table 2.

Table 2: Covered and Noncovered Medical Benefits of the Combined Fund

Major category	Coverage
Drugs and medication	Prescription medications
Home health services	If determined medically necessary by a physician, skilled nursing services, in-home physical and speech therapy, durable medical equipment, and oxygen
Inpatient hospital services	Semi-private room and board, intensive and coronary care, use of hospital facilities, diagnostic or therapeutic items, drugs or medications, administration of blood and plasma, renal dialysis
Mental health treatment	Individual psychotherapy, group therapy, psychological testing and counseling if the treatment is determined medically necessary by a physician and not available at no cost from another source; alcohol or drug rehabilitation, subject to prior approval **Not covered:** Encounter or self-empowerment group therapy, custodial care of mentally retarded or mentally deficient individuals, services rendered by private teachers, treatment for school-related behavioral problems
Obstetrical and family planning	Prenatal and postnatal care, certain childbirth classes, delivery, abortions when certified by a physician to be medically necessary, fees in connection with services for birth control **Not covered:** Birth control medications or devices
Preventive care	Physical exams and related medically necessary laboratory tests and x-rays, annual or semi-annual gynecological exams, preventative treatments such as immunizations and screening for hypertension or diabetes **Not covered:** Checkups necessary for applications for a marriage license, employment, or federal black lung disease
Surgery	The plan requires prior approval for certain surgical services
Treatment of illness or injury	Treatment for an illness or injury provided by a physician in an office or home; emergency medical treatment in an emergency room sought within 48 hours of onset
Other benefits	Certain outpatient hospital services, skilled nursing care facilities (subject to prior approval), vision treatment and routine eye care, use of extended care units (subject to prior approval) if prescribed by a physician, prosthetic devices, orthopedic appliances and shoes, physical and speech therapy, hearing aids, ambulance transportation, certain nonmedical transportation

Of the 71,337 individuals receiving benefits through the Combined Fund, 65,146 (about 90 percent) are also covered by Medicare. Combined Fund officials could not provide us with the exact number of beneficiaries covered by private insurance. However, they estimate that the number of beneficiaries is negligible.

Question 3

What are the major components of expenditures by the Combined Fund? How can these be expected to vary over time and why?

According to the June 1998 actuarial projections, the major expenses of the Combined Fund are medical benefits, death benefits, and administrative costs. The total expenditures for the Combined Fund in 1997 were about $366 million. In 1997, medical expenses constituted approximately 90 percent of expenditures, with death benefits and administrative costs amounting to about 3 percent and 7 percent, respectively. These expenses vary with both the size of the beneficiary pool and trends in the costs of medical treatment. Since a finite number of beneficiaries is covered by the Combined Fund, the beneficiary pool will likely decline as recipients die, driving down the number of individuals claiming benefits. Conversely, medical costs are expected to rise, thereby increasing per-capita medical expenses. Thus, as the beneficiary pool decreases over time, medical expenses may become a larger component of Combined Fund expenses in the future. Also, if the Combined Fund becomes insolvent, the cost of borrowing to pay benefits may add to expenses.

Question 4

How long do you expect the fund, as currently structured, to remain solvent and able to cover beneficiaries? Please give a year-by-year breakdown for the next 10 years.

It is difficult to accurately project the future solvency of the Combined Fund, primarily because of uncertainties created by the recent Supreme Court decision. The June 1998 Court ruling will likely reduce the number of firms that are required to pay into the fund. Regardless of the ultimate effect of the ruling on fund revenues, actuarial estimates made just before the decision show that the fund will be insolvent by 2000 and that its deficit will grow to between $107 million and $619 million by 2007, depending on the variation in Medicare-related expenses.

Table 3 contains actuarial projections of the balance of the Combined Fund calculated before the June 1998 Court ruling. These projections include anticipated savings from agreements between the Combined Fund and the Health Care Financing Administration (HCFA) to cover certain Medicare benefits of Combined Fund beneficiaries. Under these agreements, the Combined Fund will finance Medicare services for Combined Fund beneficiaries who also have Medicare coverage. HCFA pays a premium to the Combined Fund for each Medicare-covered beneficiary. In return for this premium, the Combined Fund will cover payments for certain Medicare services for Combined Fund beneficiaries. Thus, if Medicare services cost more than the Medicare premium, the Combined Fund loses money. However, if these services cost less than the premium, the fund will realize a savings. The actuarial projections of the Combined Fund solvency for three levels of savings from the Medicare agreement and a baseline (zero savings) scenario are presented in table 3. As can be seen in table 3, even before taking into account the potential loss of revenue from the June 1988 Supreme Court ruling, the Combined Fund is expected to be insolvent by 2000 and its balance could continue to deteriorate thereafter.

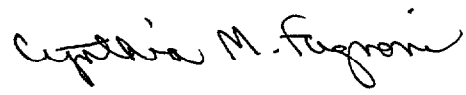
Table 3: Combined Fund's Year End Fund Balance (Shown in 000s)

Year	Baseline scenario	4% savings scenario	8% savings scenario	12% savings scenario
1997 (actual)	$95,517	$95,517	$95,517	$95,517
1998	52,204	52,204	52,204	52,204
1999	4,101	7,126	10,151	13,176
2000	(52,561)	(36,757)	(20,952)	(5,147)
2001	(115,083)	(79,335)	(43,587)	(11,792)
2002	(176,649)	(120,180)	(63,712)	(15,351)
2003	(241,955)	(163,931)	(85,907)	(20,330)
2004	(312,712)	(212,001)	(111,289)	(27,612)
2005	(409,271)	(282,868)	(156,466)	(51,955)
2006	(510,887)	(357,639)	(204,391)	(78,134)
2007	(618,887)	(437,506)	(256,125)	(107,135)

Note: Parentheses indicate negative numbers.

If you have any questions, please contact me on (202) 512-7215. Other major contributors are Francis Mulvey, Assistant Director, and Christy Muldoon, Evaluator-in-Charge.

Sincerely yours,



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