United Mine Workers of America (UMWA) Combined Benefit Fund

Background:

The Combined Benefit Fund (CBF) is a private employee benefit trust fund that provides health care and death benefits for eligible union coal mine workers who retired on or before July 20, 1992 and their dependents. It was created by the Coal Industry Retiree Health Benefit Act of 1992 (the "Coal Act"), replacing two health benefit plans that were experiencing severe financial difficulties. The UMWA and the bituminous coal industry appoint trustees who operate and manage the CBF. The CBF health insurance plan is a "Medigap" plan. The CBF pays for health care expenses remaining after Medicare and Medicaid reimbursement and pays for prescription drugs.

The Coal Act holds coal operators and related companies responsible for paying monthly premiums for the costs of health benefits related to their retired mine workers and dependents (known as "assigned" beneficiaries). In addition, if the OSM transfer explained below is insufficient, coal operators and related companies are required to pay a monthly premium for the health care costs of retired workers (and dependents) who were employed by coal operators that are no longer in business, have no related successor company, or whose former employer cannot be identified (known as "unassigned" beneficiaries). Also, these companies pay a premium for the death benefits covering all beneficiaries. Under the Coal Act, the Social Security Administration (SSA) is responsible for computing the per beneficiary health premium and for assigning retired mine workers to their former employers or related companies.

There are approximately 60,000 beneficiaries; 40,000 are assigned beneficiaries and 20,000 unassigned. Mostly the beneficiaries are elderly widows and dependents of miners. The average age is 78.

Although the Coal Act obligates operating coal companies to pay the health care premiums for unassigned beneficiaries, the Act provides for a Federal subsidy. Specifically, the Act authorizes a transfer of up to $70 million of the interest earned on the principal balance of the Abandoned Mine Land Reclamation Fund (known as the "AML" Fund) in a fiscal year to the CBF to pay the estimated expenditures of unassigned beneficiary premiums. (OSM assesses a fee on every ton of coal mined to pay for reclamation of abandoned mine sites. OSM deposits the fees into the AML fund). If interest is not sufficient to cover the estimated expenditures, OSM may access a reserve (Reserve) consisting of AML Fund interest earned from FY 1993 – FY 1995.

Once the Reserve is exhausted, OSM may only transfer the actual interest earned for the relevant fiscal year, up to $70 million, even if the estimated amount of CBF expenditures exceeds the amount of interest earned. The transfers from the AML Fund were intended to reduce (and thus far have obviated the need for) any pro rata payments that the assigned operators would otherwise be required to pay to provide health benefits to unassigned beneficiaries. Through March 1, 2001, OSM has transferred $486.4 million to the CBF for the unassigned beneficiaries.

Current Status:

The financial condition of the CBF has deteriorated since the mid-1990s. Two factors have contributed to this problem and relate to the assigned pool:

2. The cost of providing health care for the assigned beneficiaries has exceeded the revenues generated at an increasing rate. The CBF is not statutorily authorized to set the premium rate. The SSA has that authority but it is limited by statute to raising premiums based only on the medical cost increase of the Consumer Price Index.

3. A lawsuit brought by an association of coal industry employers and several assigned operators challenged the methodology on which SSA had based its premium computations since 1993. The resulting court decision (National Coal Association v. Chater) in July 1995 reduced the premiums charged the coal operators, by about 10 percent. Because of these factors, premium revenue for the assigned beneficiaries is increasingly insufficient to meet their health care expenditures.

In contrast, the unassigned pool has thus far not faced revenue shortfalls because the Coal Act provides for the full recovery of medical and administrative costs incurred for the unassigned beneficiaries.

In an effort to maintain the solvency of the CBF, the FY 2000 Interior Appropriations Act included language directing a one-time emergency transfer of $68 million from the Reserve to cover a shortfall in the CBF premium accounts. As a result of this transfer the Reserve had a balance of $64.5 million as of June 1, 2000.

The FY 2001 Interior Appropriations Act included a one-time emergency transfer of up to $96.7 million from the Reserve as well as interest for FY 1992, to the CBF to cover a net asset deficit. Following the Congressional appropriation, OSM on January 19, 2001, signed an Memorandum of Understanding (MOU) with the United Mine Workers of America - Combined Benefit Fund (UMWACBF) setting forth the details for the transfer of these funds. As of January 24, 2001, OSM transferred $81.6 million of the potential $96.7 million appropriated. If the remaining $15 million of the $96.7 million is transferred, the FY 1992 through FY 1995 interest will be depleted.

Besides the aforementioned statutory authorities and requirements, management and oversight of the CBF are also effected by a Memorandum of Understanding (MOU) that OSM and the CBF adopted in 1996. It includes such matters as the procedures related to the OSM transfer to the CBF and the process by which assigned beneficiaries may be reclassified as unassigned beneficiaries because the assigned operator and any related companies cease doing business.

The MOU was amended in October 2000 to change how OSM's annual transfer is calculated. Before the October 2000 amendment, under the 1996 MOU, OSM paid the premium for each unassigned beneficiary and was billed later for the difference between premium revenue and the actual health care costs. Under the revised MOU, OSM pays the estimated actual health care costs to unassigned beneficiaries up front. The conference report for FY 2001 Interior Appropriation endorses this approach. The report states, "The managers believe that the interest transfer at the beginning of each fiscal year should be based on the Combined Benefit Fund trustee's estimate of the year's actual expenditures for unassigned beneficiaries which may be adjusted to the actual amount of those expenditures at a later time if the initial transfer provides to be either too high or too low." House Report 106-914, Page 200. The FY 2001 transfer was $102.9 million, which included $35.4 million for prior year adjustments under the 1996 MOU.

The Office of Inspector General has completed an audit of OSM's transfers to the CBF. The results of this audit showed that all of the transfers were made in accordance with the applicable laws and that all health care costs were appropriate. The audit was requested by OSM and the report was issued in January 2001.

OSM does not have a related GPRA goal for this issue.