United States General Accounting Office
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Accounting and Information
Management Division

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August 31, 2000

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate

Subject: Additional Information Related to Analysis of the Administration's Proposal to Ensure Solvency of the United Mine Workers of America Combined Benefit Fund

Dear Mr. Chairman:

On June 28, 2000, we briefed your staff on the results of our work related to your March 9, 2000, request that we review the administration's proposal to ensure the solvency of the United Mine Workers of America (UMWA) Combined Benefit Fund. Specifically, you asked that we analyze the impact of the administration's proposal to (1) extend the Abandoned Mine Land Reclamation (AML) fees, (2) reverse the effects of *National Coal v. Chater*, (3) reverse the effects of *Dixie Fuel Company v. the Social Security Administration*, and (4) appropriate federal funds. In addition, you asked that we provide some general background information on the operations, governance structure, benefit structure, and historical and projected financial position of the fund.

On August 15, 2000, we delivered a letter to you summarizing the information provided at the briefing.[1] The detailed briefing slides were attached to the letter. Our analysis of the administration's proposal indicated that while the administration's proposal improves the projected financial position of the fund, reducing the fiscal year 2008 anticipated cumulative deficit, not including borrowing costs,[2] from $513 million to $83 million, it does not ensure the solvency of the fund. Additional funds will be needed to ensure its solvency.

[1] *Analysis of the Administration's Proposal to Ensure Solvency of the United Mine Workers of America Combined Benefit Fund* (GAO/AIMD-00-267R, August 15, 2000).

[2] The actuarial projection estimates the year 2008 accumulated deficit to be $614 million, which includes $101 million in borrowing costs.

Subsequently, in a letter dated August 16, 2000, you requested that we provide additional information related to the UMWA Combined Benefit Fund. Specifically, using readily available information, you asked us to

- compute the average cost per beneficiary of providing benefits under the fund for at least the past 4 fiscal years as compared to the per beneficiary premium charged to contributing companies for those years,
- compute the annual percentage increase in the average cost per beneficiary of providing benefits under the fund for at least the past 4 fiscal years as compared to the increase in the medical component of the Consumer Price Index (CPI) for those years, and
- break out the income to the fund for at least the past 4 fiscal years in the following manner:
  - coal company premiums (medical and death),
  - Health Care Financing Administration (HCFA) payments (Medicare Capitation and Part A Risk Contract Settlements),
  - AML fees, and
  - other income.

We used data from the fund's actuarial projections, UMWA officials, the Bureau of Labor Statistics (BLS), and the Social Security Administration to perform the requested calculations and to break out the income to the fund for fiscal years 1996 through 2000. We did not independently verify underlying data or compute actuarial projections. As part of our prior work, we contacted independent actuaries to review the actuarial projections and assumptions for reasonableness. We obtained comments on a draft of this letter from UMWA's Comptroller and Assistant Director of Managed Care Program Development and Research. Their comments have been incorporated where appropriate.

We conducted our work in August 2000 in accordance with generally accepted government auditing standards. The purpose of this letter is to convey the requested information to you.

According to our calculations, both the net average cost per beneficiary of providing benefits under the fund and per beneficiary premium increased each fiscal year for the past 5 years. During these 5 years, the average cost increased from $2,478 to $3,766, while the per beneficiary premium charged to contributing companies for those years increased from $2,201 to $2,503.

Table 1: Average Annual Net Cost of Benefits Per Beneficiary and Per Beneficiary Premium for Fiscal Years 1996-2000

	1996	1997	1998	1999	2000
Average net cost of benefits per beneficiary	$2,478	$2,762	$3,144	$3,321	$3,766 (estimate)
Per beneficiary premium	2,201	2,279	2,343	2,420	2,503
Excess of average per beneficiary net cost over premium	**$277**	**$483**	**$801**	**$901**	**$1,263 (estimate)**

Sources: GAO analysis based on UMWA actuarial projections, other unaudited UMWA data, and Social Security Administration data.

The percentage increase in the average net cost per beneficiary of providing benefits under the fund for the past 5 fiscal years fluctuated from 1 to 14 percent, while the percentage increase in the medical component of the CPI for those years was relatively stable, fluctuating from 3 to 4 percent.

According to Fund officials, while the increase in the medical component of the CPI is driven primarily by price increases, the increase in the fund's average net cost of providing benefits per beneficiary is driven by the increased use of medical care (due to the aging of its already elderly population and the introduction of new prescription drugs), in addition to price increases.

Table 2: Annual Percentage Increase in the Average Net Cost Per Beneficiary of Providing Benefits as Compared to the Increase in the Medical Component of the CPI for Fiscal Years 1996-2000

	1996	1997	1998	1999	2000
Percentage increase in the average net cost of benefits per beneficiary	1[a]	11	14	6	13
Percentage increase in the medical component of the CPI	4	3	3	3	4

[a]According to fund officials, in 1996, reimbursement for pharmaceutical services was based on a negotiated set payment rather than actual cost. Beginning in the second quarter of fiscal year 1997, reimbursement reverted to an actual cost basis.

Source: GAO computed based on UMWA and BLS data, rounded to the nearest whole percentage point. Percentage increase for medical component of the CPI for fiscal year 2000 was based on BLS data available for the first 10 months of the fiscal year.

Income during fiscal years 1996 through 2000 was derived from three primary sources: (1) coal company premiums (medical and death), (2) HCFA (Medicare capitation payments[3] and Part A Risk Contract Settlements[4]), and (3) transfers of interest from the AML trust fund. Combined, these three sources provided over 85

[3]Rather than reimbursing the fund as it incurs expenses for Medicare-eligible beneficiaries, Medicare pays the fund a fixed amount per eligible beneficiary annually for estimated expenses for Medicare-covered services provided to eligible beneficiaries. This flat payment amount per beneficiary is known as a capitation payment.

[4]The fund entered into a risk-sharing arrangement for Medicare Part A service with HCFA. The effective period for the arrangement was January 1997 through June 2001. According to the arrangement, the fund paid deductibles, coinsurance, and other covered expenses that exceeded Medicare's limits.

percent of the fund's total income for each of the past 5 years. The remaining 15 percent of the fund's income consisted of Black Lung Disability Trust Fund reimbursements and investment income.

Table 3: Income to the Fund for Fiscal Years 1996 through 2000 (Dollars in Thousands)

Source of income	1996	1997	1998	1999	2000 (estimate)
Medical premiums	$135,014	$151,499	$77,458[a]	$150,252	$116,681
Death premiums	10,968	10,896	15,789	(5,216)[b]	9,364
Medicare capitation	134,450	130,997	126,049	123,943	117,263
Part A risk	0	0	0	2,933	697
AML fund transfers	32,733	42,138	70,427	46,066	127,291[c]
Other	54,955	14,715	11,578	11,437	10,101
Total income	**$368,120**	**$350,245**	**$301,301**	**$329,415**	**$381,397**

[a]The decline in income from medical premiums is primarily due to recording the effect of a court decision on the annual medical premium calculation. This decision reduced premiums about 10 percent per year since inception of the fund.

[b]Prior year funds that were originally recorded as unassigned premiums were reallocated to death benefit premiums in 1999, resulting in a debit balance in the death premium account.

[c]In November 1999, the Congress appropriated an additional $68 million in interest from the AML fund to allow the fund to meet its fiscal year 2000 commitments.

Source: UMWA actuarial projection reports.

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We are sending copies of this letter to the Honorable Daniel Patrick Moynihan, Ranking Minority Member, Senate Committee on Finance. We will make copies available to others upon request. We appreciate the opportunity to be of assistance. If you or your staff have any questions regarding this letter, or if we can be of further assistance, please contact me at (202) 512-4476 or Alana Stanfield, Assistant Director, at (202) 512-3197. I may also be reached by e-mail at *jarmong.aimd@gao.gov*. Key contributors to this assignment were Bonnie Derby and Ogbeide Oniha.

Sincerely yours,

Gloria L. Jarmon

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