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GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

B-248143

June 30, 1994

The Honorable Kent Conrad
United States Senate

Dear Senator Conrad:

This letter responds to your March 9, 1994, correspondence concerning the United Mine Workers of America (UMWA) Combined Benefit Fund. The Coal Industry Retiree Health Benefit Act of 1992 established the Combined Fund as of February 1, 1993, by merging two existing UMWA retiree health benefit trusts. The Combined Fund is financed mostly by annual premiums assessed to certain companies, called operators, that (1) signed any coal wage agreement with UMWA in 1988 or prior years and (2) still are or were in the coal business.

You requested that we answer a number of questions concerning the Combined Fund's beneficiaries, expenses, and revenues. The Combined Fund's staff and officials provided most of the information needed to respond to your request. We also obtained information concerning the Fund's Medicare reimbursement arrangements from the Health Care Financing Administration.

HOW MANY BENEFICIARIES ARE IN THE COMBINED FUND AND TO WHICH OPRERATORS ARE THEY ASSIGNED?

As of December 31, 1993, the Combined Fund had 101,816 beneficiaries. In 1993, the beneficiary population was assigned for assessing premiums as shown in table 1. The unassigned premium was fully funded by transfers from the 1950 pension trust, as discussed later in this letter.

Table 1: Assignment of Combined Fund Beneficiaries

	Number of beneficiaries	
	At 2/1/93	At 10/1/93
Assigned to 1988-agreement operators	53,168	50,804
Assigned to non-1988-agreement operators	30,076	28,846
Unassigned	25,565	24,240
Total	108,809	103,890

The Social Security Administration (SSA) made these beneficiary assignments. A number of companies appealed their identification as operators and about 150 appeals were upheld by SSA, ending the companies' obligation to contribute to the Combined Fund. The companies' contributions will be refunded and the beneficiaries that were assigned to them will either be added to the unassigned group or assigned to another operator. As of June 24, 1994, SSA had not informed the Combined Fund of the action that it would take regarding the beneficiaries concerned.

HOW WERE OPERATORS BILLED FOR FISCAL YEARS 1993-94?

Pursuant to the act, the 1988-agreement operators paid the Combined Fund's net expenses for fiscal year 1993, the 8-month period from February 1, 1993, to September 30, 1993. Subsequently, pursuant to the act's provisions, on October 22, 1993, the Combined Fund billed operators the total premium for fiscal years 1993 and 1994 as shown in table 2.

Table 2: Combined Fund Operator Billing

Operator type	Number	Amount billed
1988-agreement operators	191	$128,685,000
Non-1988-agreement operators	497	101,747,000
Total	688	$230,432,000

This billing retroactively billed the non-1988-agreement operators for their 1993 premium. Also, pursuant to the act, the billing reflected a credit of some $69 million to the 1988-agreement operators for the amounts that they had paid the Combined Fund during fiscal year 1993.

WHAT ACCOUNTS FOR THE VARIANCE IN GAO'S FISCAL YEAR 1993 EXPENSE PROJECTION FOR THE PRIOR TRUSTS WITH THE COMBINED FUND'S ACTUAL NET EXPENSES?

GAO's net expense projection for the two prior health benefit trusts for fiscal year 1992 was very close,[1] just over $11 million more than their actual net expenses of some $247 million--less than a 5-percent variance. However, our projection for fiscal year 1993 for the same trusts was about $65 million (about 33 percent) higher than the Combined Fund's actual net expenses for its initial 8-month fiscal year, annualized. The 1993 projection was higher, we believe, because of the combined effect of the following factors.

1. Our estimates for 1993 were determined from projections of the two prior trusts' actual net per capita costs in mid-fiscal year 1990 in four expense categories. Consequently, the projection did not reflect the $21.62 increase in the Combined Fund's monthly Medicare per capita reimbursement rate to $177.22, which became effective as of July 1, 1992. We estimate that the effect of the increase was to reduce the Combined Fund's unreimbursed costs for 1993 by about $24 million, because about 86 percent of the Combined Fund's population--some 93,800 beneficiaries--was Medicare eligible as of February 1, 1993.

2. Our estimates were determined using a larger population base than the Combined Fund had for 1993. The act limited the Combined Fund's population to those individuals who were eligible to receive and were receiving benefits from the two previous trusts as of July 20, 1992, thus giving it a declining beneficiary base. Our estimate, however, was determined from the two prior health benefit trusts, one of which had an increasing population. Thus, for 1993, our population base for the two prior trusts was about 3,400 persons greater than the number of the Combined Fund's actual beneficiaries.

3. Our 1992 estimate of medical cost inflation for 1993 was about 1.3 percentage points higher than the actual rate.

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[1]See Employee Benefits: Financing Health Benefits of Retired Coal Miners (GAO/HRD-92-130FS, July 22, 1992), p. 54.

4. The Combined Fund is pursuing various medical cost-containment efforts, such as with prescription drugs, which have helped to reduce cost increases.

WHAT ARE GAO'S NET EXPENSE ESTIMATES FOR THE COMBINED FUND?

Given the foregoing factors, our earlier net expense projections for the two prior health benefit trusts for 1994 and beyond overstate the net expenses of the Combined Fund. We believe that the Combined Fund's actual net expenses for fiscal year 1993 provide an appropriate basis for projecting its net expenses, because they reflect actual operations and include the effect of the factors discussed previously. Accordingly, shown below are our estimates of the Combined Fund's net health benefit expenses, determined from its actual 1993 experience, for the next 8 years. The estimates reflect an adjusted net per capita expense rate of $1,826.28 and demographic data provided by the Combined Fund. We computed the expense rate by annualizing the Combined Fund's actual net per capita expenses for fiscal year 1993, using its average population for that year, and adjusting it for medical inflation of 6.1 percent, the same rate that SSA used to compute the operators' per capita premium for 1993. Similar to our July 1992 report, our inflation estimates beginning with 1995 are determined using (1) estimates of the consumer price index per the intermediate economic growth assumption of the 1994 report of the Trustees of the Federal Old Age Survivors Insurance and Disability Insurance Trust Funds and (2) the assumption that medical inflation will exceed the consumer price index by 3.5 percentage points.

Fiscal year	Estimated cost
1994	$189,732,000
1995	186,979,000
1996	187,329,000
1997	187,414,000
1998	187,193,000
1999	186,882,000
2000	186,579,000
2001	186,118,000

THE COMBINED FUND'S FINANCING PROVISIONS SHOULD PROVIDE SURPLUSES

Under the act, operators are required to pay an annual per capita premium to the Combined Fund for each beneficiary assigned to them as well as their proportionate share of the total premium for the unassigned beneficiaries and estimated death benefits, beginning with the Combined Fund's 1993 fiscal year. The act requires SSA to compute the initial per capita premium for 1993 using the two prior trusts' actual health benefit expenses for 1992 (including administration and net of reimbursements by Medicare and the Department of Labor's Black Lung Program), and to adjust this amount to reflect actual medical cost inflation. SSA is required to adjust this premium in each subsequent year for medical cost inflation.

Pursuant to the act's requirements, SSA computed the premium for 1993 as $2,245.83 per participant. However, this amount appears to overstate actual net expenses in that, similar to GAO's earlier projection, it does not reflect the changes that occurred in the operation of the prior trusts in fiscal year 1993. Consequently, the premium is determined by using a higher net expense base than the Combined Fund actually experienced in 1993. A retrospective comparison of the total beneficiary premium retroactively billed to operators for 1993, determined from SSA's premium and the Combined Fund's actual net expenses for the period, provides an indication of the nature of the expense overstatement.

Total premium billed 10/93 for fiscal year 1993	$163,725,000
Actual net health benefit expenses	122,037,000
Estimated expense overstatement	$ 41,688,000

GAO OBSERVATION

If the Combined Fund's lower costs continue into the future, particularly its Medicare reimbursement arrangements, this premium will produce surpluses each year, because under the act's provisions the premium can only be increased by SSA for medical inflation and by the Combined Fund for a reduction in Medicare benefits. Our estimates of the annual surpluses of about $32 million that might occur for fiscal years 1994 to 2001 are shown in the enclosure.

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This letter responds to your request. Our work was performed under the supervision of Donald Snyder, Assistant Director. Endel Kaseoru, Evaluator-in-Charge, and Gregory Curtis, Evaluator, also contributed to this study. If you or your staff have any questions concerning this letter please contact either Mr. Snyder at (202) 512-7204 or me at (202) 512-7215.

Sincerely yours,

Joseph F. Delfico

Joseph F. Delfico
Director, Income Security Issues

Enclosure

Estimated Annual Health Benefit Premiums and Net Expenses for the Combined Fund, 1994-2001
(Dollars in thousands)

	1994	1995	1996	1997	1998	1999	2000	2001
Accumulated premium surplus from prior year	8,186[a]	103,324	146,278	179,286	212,309	245,293	278,222	311,097
Estimated premiums								
Assigned beneficiaries	230,432[b]	176,359	176,689	176,770	176,561	176,268	175,981	175,547
Unassigned beneficiaries	54,439[c]	53,574[c]	53,675	53,699	53,636	53,547	53,460	53,328
Total premiums and surplus	293,057	333,257	376,642	409,755	442,506	475,108	507,663	539,971
Estimated net health benefit expense								
Assigned beneficiaries	145,525	143,413	143,681	143,747	143,577	143,339	143,106	142,752
Unassigned beneficiaries	44,208	43,566	43,648	43,668	43,616	43,544	43,473	43,366
Total net health benefit expenses	189,733	186,979	187,329	187,415	187,193	186,883	186,579	186,118
Estimated surplus								
Assigned beneficiaries: fiscal year	84,907	32,946	33,008	33,023	32,984	32,929	32,875	32,795
Assigned beneficiaries: cumulative	91,186	124,132	157,140	190,163	223,147	256,076	288,951	321,746
Unassigned beneficiaries: fiscal year	10,231	10,008	0[d]	0	0	0	0	0
Unassigned beneficiaries: cumulative	12,138	22,146	22,146	22,146	22,146	22,146	22,146	22,146
Total estimated cumulative premium surplus[e]	103,324	146,278	179,286	212,309	245,293	278,222	311,097	343,892

Note: Totals may not add because of rounding.

[a]As of October 1, 1993, the assigned group represented about 76.7 percent of the beneficiary population. Thus, $6,279,000 of the actual surplus from 1993 is applicable to assigned beneficiaries and the balance of $1,907,000 to the unassigned group.
[b]The net amount billed to operators on October 22, 1993, for fiscal year 1993 and 1994 premiums.
[c]The premium for 1994 was totally offset by the $70 million transferred from the 1950 pension trust on October 1, 1993. We assume that the premium for 1995 will similarly be offset by another $70 million to be transferred on October 1, 1994.
[d]The act provides that beginning with fiscal year 1996 the unassigned group's health benefits will be funded via transfers of interest from the Abandoned Mine Reclamation Fund. Under the legislation, amounts transferred in subsequent years may be adjusted for shortages and surpluses from prior years. Thus, we assumed that, in effect, no surpluses would occur after 1995 in the unassigned category.
[e]The act provides that premium surpluses from one year may only be used to pay medical benefits in the following year. Because estimated premiums exceed estimated net health benefit expenses yearly, the surpluses would accumulate from year to year. The premium and net expense estimates are determined from SSA's initial beneficiary assignments, some of which have been successfully appealed. Thus, our surplus estimates for the assigned beneficiaries are overstated to the extent that individuals are subsequently moved from the assigned to the unassigned group.

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