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United States General Accounting Office
Washington, DC 20548

April 29, 2002

The Honorable Sam Johnson
Chairman
Subcommittee on Employer-Employee Relations
Committee on Education and the Workforce
House of Representatives

Subject: *Retiree Health Benefits: Examples of Employer-Reported Obligations in Selected Industries*

Dear Mr. Chairman:

As a follow-up to our November 2001 testimony before the subcommittee on trends in retiree health benefits,[1] you requested additional information on the obligations employers face related to retiree health benefits. Specifically, you asked us to provide examples, based on readily available data, of employers' estimates of their future financial obligations for retiree health benefits, particularly in industries that have reported high obligations for these benefits such as airlines, automotive manufacturing, and steel/metal. To obtain this information, we reviewed publicly available electronic copies of the annual reports that selected large airline, automotive, and steel/metal companies filed with the Securities and Exchange Commission (SEC). We performed our work in April 2002 in accordance with generally accepted government auditing standards.

The annual reports to SEC, which must be filed within 90 days after the end of the company's fiscal year, provide an overview of the company's business and include information on employers' estimated obligations for postemployment benefits, including retiree health benefits. However, since factors and assumptions used in estimating obligations for postemployment benefits may vary considerably across companies, they are not comparable. Within guidelines established by the Financial Accounting Standards Board, employers have latitude in how they calculate their postemployment benefit obligations. For example, companies consider factors unique to them, such as employee demographics, retirement rates, health care cost trends, and investment return rates to calculate their postemployment benefit liability. Further, changes in companies' benefit offerings or financial stability would likely alter companies' obligations for retiree health benefits. Nearly all employers reserve the right to modify or terminate retiree health benefits. Reasons that may

[1]U.S. General Accounting Office, *Retiree Health Insurance: Gaps in Coverage and Availability*, GAO-02-178T (Washington, D.C.: Nov. 1, 2001).

influence employers to subsequently curtail such benefits include their health care costs rising faster than expected or their economic condition weakening.

Table 1 provides information that 14 employers in the airline, automotive, and steel/metal industries reported to the SEC regarding their financial obligations for other postemployment benefits (OPEB) in 2001, 2000, and 1999. OPEB represents retirement benefits, including retiree health benefits, but excluding pension benefits that are separately reported. As specified for each company in the table, some companies may provide a dental or vision benefit for retirees separate from their retiree health benefits. In addition, some companies may offer life insurance as a benefit to retirees. Companies include the costs of these additional benefits in their reporting of OPEB obligations.

Table 1: OPEB Obligations (Including Retiree Health Benefits) Reported by Selected Airline, Automotive, and Steel/Metal Companies

	OPEB obligations (in millions of U.S. dollars or otherwise specified currency)		
Company	**December 31, 2001**	**December 31, 2000**	**December 31, 1999**
Airline companies			
American Airlines, Inc.[a]	2,759	1,708	1,306
Delta Air Lines, Inc.[b]	2,100	1,780	1,612[c]
Northwest Airlines Corporation[d]	647	531	391
UAL Corporation (United)[a]	2,359	1,706	1,465
US Airways Group, Inc.[e]	1,440[f]	1,241[f]	1,162[f]
Automotive companies			
Daimler-Chrysler AG[g,h]	15,095 Euros	12,857 Euros	10,527 Euros
Ford Motor Company[g]	25,433	23,374	19,885
General Motors Corporation[i]	52,489	49,889	44,683
Steel/metal companies			
Alcoa, Inc.[a]	3,177	2,924	1,687
Bethlehem Steel Corporation[a]	2,047	1,955	1,820
The LTV Corporation[j]	Late filing-no information for 2001[k]	1,524	1,500
National Steel Corporation[a]	993[f]	817[f]	751[f]
United States Steel Corporation[a,l]	2,555	2,149	1,896
Weirton Steel Corporation[a]	389	321	309

Notes: Postemployment benefit obligations across companies are not comparable because companies have wide latitude in the assumptions they use to calculate these obligations.

[a]OPEB obligations include health and life insurance.

[b]OPEB obligations include dental and medical benefits.

[c]Data are for obligations as of June 30, 1999.

[d]OPEB obligations include medical and dental benefits for certain employees who retired prior to 1987, and life insurance benefits for certain retirees.

[e]OPEB obligations include postretirement benefits, which were not specified by the employer in the SEC filing.

[f]Data are for obligations as of September 30 of the respective year.

[g]OPEB obligations include health and life insurance for eligible U.S. and Canadian retirees.

[h]The SEC filing did not provide information about the exchange rate between Euros and U.S. dollars used to prepare the consolidated financial statements.

[i]OPEB obligations include medical, dental, life, and vision benefits.

[j]OPEB obligations are for health care, life insurance, and other insurance benefits.

[k]On December 29, 2000, the LTV Corporation filed for Chapter 11 bankruptcy. On December 7, 2001, the U.S. Bankruptcy Court issued an order that authorized the implementation of an asset protection plan for the shutdown and sale of all integrated steel assets.

[l]As of December 31, 2001, United States Steel Corporation reorganized. United States Steel LLC, a former subsidiary of USX, became United States Steel Corporation. USX Corporation was renamed Marathon Oil Corporation. Prior to this time USX was comprised of two groups: U.S. Steel and Marathon.

Sources: Reported in companies' filings with the Securities and Exchange Commission Company available on line at www.sec.gov. (10-K and 10-K405 filings for American Airlines, U.S. Airways Group, Alcoa, and Bethlehem Steel; 10-KT405 and 10-K filings for Delta Air Lines; 10-K and 10-K (amended) filings for Northwest Airlines, UAL Corporation, and United States Steel Corporation; 10-K filings for Ford Motor, General Motors, LTV Corporation, National Steel Corporation, and Weirton-Steel Corporation; and 20-F (for foreign-based companies) filings for Daimler-Chrysler AG).

As agreed with your office, unless you publicly announce its contents earlier, we will not distribute this correspondence until 30 days after its date. Then we will make copies available upon request. This letter will also be available on GAO's home page at *http://www.gao.gov*. Please call me at (202) 512-7118 or John Dicken at (202) 512-7043 if you have any questions. Other contributors to this correspondence include Susan Anthony and Sari Bloom.

Sincerely yours,

Kathryn G. Allen

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