To: All BMWED Members and Their Families

DO YOU WANT TO SUFFER A MASSIVE TAX INCREASE THAT COULD DESTROY YOUR HEALTHCARE BENEFIT?

I KNOW YOU DON'T AND WE MUST FIGHT TOGETHER TO STOP THIS DANGEROUS IDEA FROM BECOMING LAW.

> *"You see, Senator McCain would pay for his plan, in part, by taxing your health care benefits for the first time in history. And this tax would come out of your paycheck....*
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> *Now, it's not that he doesn't care about what people are going through. I just think he doesn't know. That's the only reason I can think of that he'd propose a health care plan that is so radical, so out of touch with what you're facing, and so out of line with our basic values.*
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> *That's why I believe that every single American has the right to affordable, accessible health care – a right that should never be subject to Washington politics or industry profiteering,* ***and that should never be purchased with tax increases on middle class families****, because that is the last thing we need in an economy like this."*
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> President Barack Obama in prepared campaign remarks at Newport News, Virginia, October 4, 2008

Well, that radical, out of touch idea has supporters in Congress who want to treat your healthcare benefits as income and tax you on the value of those benefits. This proposal to tax the value of employer-provided healthcare benefits would result in the largest middle class tax increase in peacetime and transfer your hard-earned dollars to enrich the private insurance companies and drug companies who would benefit from the proposed healthcare "reform" legislation.

Presently, a number of healthcare reform bills are being drafted and under consideration by various committees in the House of Representatives and the Senate. The stumbling block to most of these reform bills is how to pay for the increased costs to the federal government as a result of mandating health insurance coverage for all Americans. The solution proposed by a few, Senator Max Baucus (D-Montana) and Senator Ron Wyden (D-Oregon) to name two who publicly advocate such a course, is to treat the value of some or all of the healthcare benefits provided to you by your collective bargaining agreement as taxable income to you.

Additionally, the railroads, your employers, would not be permitted to deduct from their corporate tax returns the amounts they spend on healthcare premiums. To understand this problem, a little history is in order.

In 1948, President Harry Truman proposed federal legislation that would establish a type of single-payer national health plan like that which exists in Canada and other industrialized countries today. That proposal was torpedoed by a number of groups, chief among them being the American Medical Association, the trade group which represents doctors in this country.

The federal government's inability to provide a comprehensive solution to healthcare meant that solution had to come from the private sector. In 1954, the BMWED along with the other rail unions, negotiated the first "national" health insurance plan with the major railroads. That first plan covered only the employee (coverage for the spouse and dependents was extra and paid 100% by the employee) and involved a 50-50 split on the premiums between the employee and the railroad. As time passed, spouses and dependents were included in the employer-based plan and furloughed and sick and disabled employees received extended benefits to cover periods when they were not working. The original plan was an indemnity plan, which meant that the railroads paid a premium to the insurance company and the insurance company agreed to pay the benefits provided in the plan. Under such an arrangement, the insurance company is on the hook if premiums don't cover the cost of the plan; however if premiums exceed the cost of the plan, the insurance company gets to keep the excess.

However, by the early 1990's, the original national healthcare plan was in dire economic condition. Costs were rapidly rising and the entire problem was placed before PEB 219 when labor and management could not resolve the dispute voluntarily. In 1991, PEB 219 replaced the old indemnity plan with a new "self-insured" plan, meaning that all benefits would be paid out of a fund created by the railroads. This health insurance plan is jointly run by the railroads and the rail unions. Under this plan, rail labor and rail management meet each year to set a new monthly premium for the following calendar year based upon a review of last year's actual benefit payments and the expected usage of the plan in the current year. If the estimate was too low, more money would have to go into the plan; however, if excess premiums were collected, that money is "rolled over" to help cover benefit costs in the next year. Under usual circumstances, the monthly premium is set at a rate that provides a modest "cushion" so that a small amount is left in the fund at the end of each calendar year. Under the current plan, an administrator, in this case United Healthcare, was selected and paid a flat administrative fee for its services in processing claims and benefits and tracking expenditures and making forecasts for the following year.

Significantly, these changes preceded by two years, the proposed healthcare reform advanced by President Clinton in 1993. However, that proposal met the same fate as President Truman's some 45 years before. You remember the "Harry and Louise" ads run by the private insurance companies fearful of any encroachment on their turf and profits from providing health insurance to those select few they considered "good risks" – meaning folks they could make money off of by selling them insurance. The sick, the old and the injured are not "good risks" for the insurance companies. That is one of the main reasons why almost 50 million people in this country do not have health insurance.

As a result of these changes, BMWED members accepted lump sum payments rather than percentage wage increases in the 1992 National Agreement to help stabilize the health insurance plan. In the 2001 National Agreement, BMWED members accepted a wage package that was guaranteed not to keep pace with inflation in order to cover the increasing cost of healthcare benefits for the membership and their dependents. The 2007 National Agreement resulted in direct employee contributions toward healthcare costs amounting to 15% of the monthly cost of premiums for medical, dental and vision care. In other words, BMWED members agreed to "tax" themselves in the manner of deferred or foregone wage increases to maintain health insurance benefits.

In 2008, the national employee healthcare insurance plan paid out almost $2 billion in benefits. Those benefits are paid exclusively through employer premiums and employee cost sharing contributions. This almost $2 billion insurance plan exists because the federal government was unable or unwilling to tackle healthcare as a national social insurance benefit. Instead, the federal government defaulted its responsibility to private parties to provide, or not provide as the case may be, health insurance. You can look at the railroad industry as a type of "state within a state" that provides its own social insurance benefit through "taxes" in the form of employee cost sharing and wage increases foregone to maintain the benefit for railroad employees and their dependents.

The annual cost of such coverage is $14,144.16 for each individual employee, of which $2,051.52 is employee cost-sharing contributions. Throughout this period, the value of the health insurance premiums contributed on your behalf by the railroad were excluded from your taxable income. Likewise, since January 2007, the cost-sharing contribution made by you has been excluded from your taxable income. Additionally, the railroad has been able to deduct the amount of its premium payments from corporate income for federal tax purposes.

All of that will change under proposals now under consideration in Congress. Your exclusion will be eliminated or reduced and the railroads' tax deduction also will be eliminated or reduced. How will these changes affect you in dollars and cents terms?

In December 2008, the BMWED published a compensation table for the "average" BMWED member who earned $21.35 an hour and worked straight time on a year 'round basis. That "average" employee would have gross earnings of $44,408.00 over the course of the year. Assuming this average employee is married and files jointly (no minor dependents) and takes the standard deduction and personal exemptions, the employee's taxable federal income is $25,780.00. The employee's federal personal income tax on that amount is $3,032.00 or 11.76% of total taxable income. Now, if $12,092.64, the value of the employer payment of healthcare premiums after employee cost-sharing contributions is deducted, is added to the employee's original gross income, the taxable federal income rises to $37,872.64 and the employee's federal personal income tax on that amount is $4835.00 or 12.8% of total taxable income. **That figure amounts to a tax increase of $1803.00 per year or a 37% increase in federal income tax paid by the employee.**

The picture gets no better when you add in additional tax payments to Tier I and Tier II of Railroad Retirement. Presently, the employee earning $44,408 per year would pay $5129.00 per year in Tier I and Tier II taxes. Adding an additional $12,092 to the employee's earnings would add another $1396.70 in Tier I and Tier II tax liability.

Put another way, the grand total in increased tax payments by our "average" BMWED employee would be **$3199.77** under these proposals to tax the value of employer provided healthcare benefits. That figure does not include any state income tax liability owed by the employee. **The "average" member would have the "privilege" of paying over $3,000 in additional taxes and obtain not one improvement to the health insurance provided under the collective bargaining agreement. Put another way, the "employee cost-sharing contribution" for health insurance would go from slightly over $2000 per year to over $5000, a 150% increase, and provide no increase in benefits to the employee or his or her spouse and dependents.**

Believe it or not, things actually get worse from there. Remember, under current law the railroad can deduct the health insurance premiums payments it makes from its income. If that deduction is removed, then the railroad will have still have the premium costs as mandated by the collective agreements, but will not be able to deduct an expense of over $1 billion collectively from their tax returns. Needless to say, that development will put tremendous pressure from the railroads at the bargaining table to reduce health insurance benefits (the only way to reduce premiums) or eliminate health insurance benefits altogether.

Finally, on July 1, 2009, BMWED members subject to the National Freight Agreement and the Amtrak Agreements will receive a 4.5% general wage increase. That wage increase is larger than any under National Agreements in almost 30 years, yet that increase would be wiped out by these tax proposals. Applying that increase to our average rate of $21.35 provides an annual wage increase of $1998.96. As you can see, the employee's increased tax liability for the year eats up the entire wage increase, plus almost another $1200.

Brothers and Sisters, these proposals place a massive tax increase on all of us in the middle class. This tax increase is directed at those employees who have struggled to deal with healthcare issues the federal government was unable or unwilling to deal with since 1948. The problem runs even deeper as the Washington Post reported on June 13, 2009 that over 30 members of Congress, including Senate Majority Leader Harry Reid (D-Nev.) and Republican Senator Judd Gregg (R-N.H.), have investments totaling at least $11 million in the healthcare industry. Now, some of these members of Congress want to fix a problem they have long ignored by requiring our "average" member to pay over $3000 per year more for the same health insurance coverage he or she receives today. That result is unacceptable.

So, what is the Union doing? For starters, I have signed on to the attached letter presented on behalf of many of the major unions in the country opposing the idea of taxing employee healthcare benefits. Second, during the week of June 15th, various State Legislative Directors will be walking the halls of Congress speaking loudly in opposition to this misguided tax plan. Third, the I have sent the attached letter to President Obama urging that he stand strong on this issue and make it clear that he will veto any legislation that includes a tax increase, thereby fulfilling his campaign promise that such tax increases were not a solution to our healthcare problems. I should note that on June 14, 2009, the Associate Press reported that Vice President Joe Biden reiterated his view that taxing employer provided healthcare benefits was not a viable solution and Senator Chris Dodd (D-Conn.) said such a tax was a "bad idea" as well as unnecessary.

Finally, here is the part you can do. I have attached a draft letter to send directly to your Representative and Senator. [add contact information for determining Representative and Senators through toll-free, website hyperlink, etc.]