the Johns Manville Retiree

Johns Manville Retirees Association

December 2003

A Voracious Appetite?

Is Berkshire Hathaway's appetite for earnings and for cash so voracious that it has to be fed from our pension checks? That's the question John Leasher asked at a standing-room-only retirees' luncheon held recently in Denver.

"Make no mistake about it. These health plan changes are all about rich people getting richer and poor people getting poorer," Leasher said. "These changes will let JM recalculate its liability for future retiree health benefit payouts. The lower liability will give a huge boost to earnings and let the company meet its earnings targets as set by Berkshire Hathaway. And obviously, taking money from our pension checks will add to the cash that the company can send in to Berkshire."

Leasher noted that the U.S. Supreme Court had ruled in the infamous Sprague vs. General Motors case that it was okay for corporations to renege on their promises as long as they had cleverly inserted a disclaimer in their official Health Plan documents—documents that the vast majority of us have never seen. Legally, the company is allowed to make whatever changes it wants to—even though many of us have the promise in writing.

In his most recent letter to all of us, JM President Jerry Henry says that the company has an absolute insistence on ethical behavior. "But if that were true," Leasher said, "JM would be honoring the commitment it made to us during our working careers: the promise of lifetime health care at no cost to either us or our spouses for the rest of our lives. We don't need to be told how ethical the company is, especially when we can see actions that speak louder than the hollow words do."

Attached to that same letter was a chart showing the latest set of numbers purporting to be JM's retiree health costs for the last six years. Here's a comparison of what we were originally told the retiree health costs were (in millions of dollars) and what we are now being asked to accept:

Johns Manville's Retiree Health Costs

Year	(1) Per Summary Annual Reports	(2) Latest Net Cost Numbers
1996	$15.0	$17.0
1997	15.6	16.1
1998	18.3	19.0
1999	14.5	20.3
2000	18.3	20.7
2001	42.4	23.0

Column (1) shows the figures given to us on the Summary Annual Reports that the company is required to send us each year. "The Summary Annual Reports are not ordinary communication," Leasher said. "These reports are required by ERISA —the same law that protects our pensions. Even the form of the reports is prescribed by law." (ERISA is the 1974 Employment Retirement Income Security Act, administered by the Department of Labor). Yet as shown in column (2) we have been given new cost numbers the company claims have been audited by a "respected accounting firm."

"The original figures had also been audited," Leasher said, noting that the earlier reports to the Department of Labor and to the IRS had been accompanied by audited financial statements.

In April this year, we were told in the slick, consultant-prepared booklet that JM's retiree health costs were "over $20 million"—in three separate places—and that the costs had increased by "over 50% in the last five years." Henry now says he is absolutely confident (his emphasis) that these statements were correct. See, we've been right along, he seems to be saying. Yet every single officially reported number has now been changed, including the one given to us a few months ago in the brochure. And the percent increase is now 65%.

This steep increase was calculated by comparing the new 2002 costs against the new 1997 costs. "1997's retiree health cost is the lowest number in twelve years. How ethical is it to use the lowest number in order to show the largest percent increase?" he asked.

Leasher noted that the health costs reported to retirees for 1991 were $23 million. "This number has not yet been changed," he noted. "Even if we accept the new $27.1 cost number for 2003, that's only a 17% increase over the last 11 years, which works out to an increase of less than one and a half percent each year. Much below ordinary inflation."

And even if we accept the new numbers and tentatively agree that the company's health costs have risen recently, we need to ask why the response to this problem is simply to stick it to the retirees. Henry was recently quoted in *The Denver Post* as saying that "JM is in better shape than it's ever been in." Last Tuesday's Post had an article about the housing market setting sales records. JM's largest competitor is in bankruptcy. And Warren Buffett told stockholders this spring that Berkshire Hathaway had $44 billion dollars of cash in its pocket to make future investments with. "So why does my pension check—and yours—need to be reduced?" Leasher asked. "And what would they be doing if things were rough?"

After reading a few of the letters that retirees had written to Mr. Buffett (without identifying the individuals), Leasher noted they dramatically demonstrate the plight that retirees will be suffering. "When I read through these letters, I alternated between being very sad and being very angry."

What was the response to these letters? Everyone who wrote was sent the same form letter, signed by a person at the JM Retiree Center. The letter, Leasher said, was non-responsive to the points individuals raised about the effect on their living standard and the need for a cost of living adjustment.

On the status of the Department of Labor investigation the Retirees Association requested, Leasher said, "I am very disappointed in what they have done so far." He has written to DOL and asked for the investigation's status and has not received a reply.

He wrote to Colorado congressman Tom Tancredo asking for his assistance in determining the status, but did not receive a reply. He expected to be told that the DOL does not comment on ongoing investigations, but was told nothing.

"What I do know is that I was not interviewed as part of the investigative process, But I don't know if the DOL has accepted the new numbers. And I don't know if internal memos were reviewed to see what company management was saying about the idea of increasing our premiums and the plan to sell it to us."

"When I research retiree health issues on the Internet," Leasher said, "I find that other companies, who have also been increasing retirees' premiums, use the same language to justify their actions." For example, *Sears* justified its substantial increase in premiums so that it could "remain competitive."

"Does this sound familiar?" Leasher asked. Other companies that have boosted their bottom lines by this method include R.R. *Donnelley & Sons Co., Sunbeam Corp, Textronix Inc.* and *Walt Disney Co.* And one company even had a name for its program: "Creeping Take Aways."

Where do we go from here? Obviously, JM is implementing the changes to our health plans and the increases in our premiums. We plan to keep the heat on.

"We have learned that Berkshire Hathaway and JM are quite sensitive to integrity issues," Leasher said. "And we now have a very good PR person who helped us get publicity about our complaint to the Department of Labor. Accordingly, we will keep this issue alive in the media. Even if we don't get the increases reversed, at least the company won't be getting a free ride on this one."

Wall Street Journal
November 25, 2003

Questioning Manville's Figures

Johns Manville Tells Ex-Workers Its Payments Soared, but Then Revises Figures After Challenge

By Ellen E. Schultz, Staff Reporter of the *Wall Street Journal*

John Leasher, a retired chief auditor for Johns Manville, thought something didn't add up last April, when the company sent retirees a letter informing them that big increases in health-care benefit costs were coming their way.

Last year retirees—many in their 70s and 80s—typically paid premiums of $20 a month for themselves, plus $300 for their spouses. The April letter, which Johns Manville sent to 9,420 retirees, spouses and widows, said premiums would rise to $100 a month for individuals and $480 for couples, and deductibles would rise from $300 per person to $400. All told, couples could have to pay a minimum of $6,560 before the company started to pick up a share of the retirees' costs, not including co-payments for treatment and prescription drugs.

Johns Manville, which was bought by the Warren Buffett investment vehicle Berkshire Hathaway Inc. in 2001, blamed its health-care costs for the increases.

It said they had risen more than 50% over the past five years.

Mr. Leasher, 67 years old, obtained copies of the "summary annual reports" companies file with the Internal Revenue Service. They showed that the actual dollars Johns Manville had paid for the benefits were $18.3 million in 2000 and $42 million in 2001. (Companies must supply these filings to employees and retirees who request them, but the filing for 2002 wasn't public yet.)

"Impossible," thought Mr. Leasher, who wrote the company, questioning how costs could have risen so fast. When the company didn't respond, Mr. Leasher filed a complaint with the U.S. Labor Department, which in September spent two days at the building-material maker's headquarters, reviewing the company's books.

The Labor Department won't comment on its findings. But on Oct. 20, C.L. Henry, chief executive of Johns Manville, sent a letter to retirees acknowledging that the company's numbers "could have been clearer, more complete and consistent." A handout included with the letter shows that the amount the company paid for the benefits in 2001 wasn't $42 million after all, but only $23 million.

In fact, all the figures now supplied by the company are different from the figures reported in the IRS filings, though none are as strikingly different as the one that caught Mr. Leasher's attention. A company spokeswoman says the figures were revised after an internal review conducted with "the help of a respected independent accounting firm." She adds that the company didn't take any deductions based on the incorrect figures.

Passing the Burden

Employers' Caps Raise Retirees' Health-Care Costs[1]

"Companies need to know that retirees are beginning to take a hard look at these numbers, especially as their rising health-care premiums erase more and more of their pensions," says Karen Ferguson, director of the Pension Rights Center.

The letter sent to retirees goes on to say that the company's costs rose to $27 million in 2002, and, following a review of retiree health-care costs, "We are absolutely confident about our past statements that our costs have increased more than 50% over the past five years."

"We must ask you to bear a portion of the dramatic and unanticipated increases in health-care costs that we have been experiencing in recent years," the letter says.

What the letter doesn't mention is that the increase looks so steep because the company is comparing 2002 costs to 1997 costs, which had spiked downward briefly from prior years to $16 million. In fact, over the past 12 years, the financial burden on the company has largely remained flat: Johns Manville paid $23 million in 1991, the same amount it reported it paid in 2001. On an annualized basis, between 1991 and 2002 the amounts paid have risen about 1.5% a year.

What's more, the company's securities filings show that from 1991 to 1999, when the figures were last reported, the liability for the benefits—a figure that represents an estimate of the future costs of providing benefits until eligible retirees die—fell to $199 million in 1999 from $268 million in 1991. The filings also show that the company implemented a "cap" in 1995, but provide no other details.

Mr. Leasher wants to know if the retirees' premiums are increasing because the company has reached the cap on what it will pay for the retirees. If that's the case, the retirees' share of the costs could spiral going forward.

A company spokeswoman declines to say whether there is a cap on benefits.

In a Nov. 17 letter to Labor Secretary Elaine Chao, Mr. Leasher attached a letter the company sent retirees in 1994 that noted that the company's costs were about $2,600 per retiree in 1993. He pointed out that last month, the company handout to the retirees noted the average cost per retiree is $2,877. "Going from $2,600 in 1993 to $2,877 in 2002 represents only slightly over a 1.1% increase each year," his letter notes. "Clearly, Johns Manville is continuing to obfuscate its retiree health costs."

A number of retirees wrote Mr. Buffett in protest. One woman wrote on behalf of her mother, a 94-year-old widow of a retiree who worked for the company for 50 years. The widow's premium of $23 a month will rise to between $69 and $115, depending on the options she chooses, plus deductibles and co-payments, which could consume half of her pension check of $411.

"The callousness is beyond me," says Mr. Leasher. "What about these old retirees in Florida and Pennsylvania and Ohio?"

Berkshire Hathaway had no comment.

The October letter to the retirees does say that the company will offer a no-premium option for retirees with more than 20 years at the company, though it doesn't mention that the deductible for this no-premium program will range from $2,500 to $5,000 for an individual retiree, and $5,000 to $10,000 for couples. The letter also says that "extreme hardship cases" will be considered.

Johns Manville Retirees Association
December 3, 2003

The Honorable Elaine L Chao
U. S. Secretary of Labor
200 Constitution Avenue NW
Washington, DC 20210

Dear Secretary Chao:

I wrote you on August 4, 2003 with a formal request that you investigate Johns Manville Corporation's retiree health plans 506 and 541. Just recently, on October 1, I wrote to Assistant Secretary Combs in an attempt to determine what the status of the Department's investigation is. I have received no response to that inquiry.

I am very disappointed with the Department's actions and lack of communications.

On October 16, Johns Manville gave information to The Denver Post that your Department's representatives had "reviewed books" at the company's Denver headquarters "over two days at the end of September." Jerry Henry, Johns Manville's CEO, told the Post that the auditing firm PriceWaterhouseCoopers had made an earlier review regarding my complaint, and that "the accountants found nothing improper."

On October 20, Johns Manville sent retirees new health cost numbers for the last six years, every one of which differs from the number originally reported to us on the company's Summary Annual Reports:

Retiree Health Costs ($ millions)		
Year	Per Summary Annual Reports	10/20/2003 Net Cost Numbers
1996	$15.0	$17.0
1997	15.6	16.1
1998	18.3	19.0
1999	14.5	20.3
2000	18.3	20.7
2001	42.4	23.0

In April this year, retirees were told in a booklet that JM's 2002 retiree health costs were "over $20 million"—in three separate places—and that the costs had increased by "over 50% in the last five years." Even that number has now been changed to $27.1 million. And the percent increase is now 65% for the five-year period. What payments to whom are now being added in to have changed this number?

If we compare the *new* costs for 2002 ($27.1 million) to what was reported to us on the Summary Annual Report for the year 1991 ($23.0 million), we see only a 17% increase over the last 11 years. This works out to an increase of less than one and a half percent each year—much below ordinary inflation.

Further, JM's October 20, 2003 communication to retirees included a schedule showing that its 2002 costs per participant was $2,877. Yet in a 1994 letter (copy attached) sent to retirees attempting to justify changes to JM's 1995 retiree medical plans, then President Richard A. Kashnow stated that the company's costs for 1993 were "about $2,600 on average per retiree." Going from $2,600 in 1993 to $2,877 in 2002 represents only slightly over a 1.1% increase each year.

Even the $2,877 may be overstated, since the new schedule lumps together the costs for the contributory plan (#541) with the costs for the non-contributory plan (#506). And note that for each of the six years shown in the new schedule, the number of participants now shown differs from the number of participants reported on the corresponding form 5500s. If revised form 5500s have been filed, I would like to know. And if they will not be required to be revised, I would like to be told why not.

Clearly, Johns Manville is continuing to obfuscate its retiree health costs.

And just as clearly, since every number previously reported to retirees is now different, Johns Manville has not met its reporting and disclosure requirements, for at least the last seven years for which it has now given us new numbers.

We retirees have been—and are being—deprived of our rights to accurate information—rights supposedly guaranteed by ERISA. We would like to know what the Department is doing about this.

I look forward to the courtesy of a response.

Sincerely,

John W. Leasher, President

Bad Medicine

NRLN Calls Medicare Prescription Drug Bill 'Bad Medicine' for American Retirees
NRLN President Asks, 'With Friends Like AARP, Who Needs Enemies?'

(WASHINGTON, Dec. 2, 2003) - The National Retirees Legislative Network (NRLN) strongly criticized recent passage of the Medicare Prescription Drug bill and the support it was given by the AARP (American Association of Retired People). The NRLN is a Washington-based grassroots coalition of retiree and older worker organizations dedicated to protecting the pension and health benefits of their members.

Citing an estimate by officials of the Congressional Budget Office, NRLN President Jim Norby points out that more than a third of seniors with employer coverage stand to lose it with passage of the prescription drug benefit legislation. "As we pointed out when we opposed this legislation last summer, employers will react to this legislation by scaling back their drug coverage for retirees," Norby said.

"In spite of provisions in the legislation aimed at preventing companies from dropping their retirees' coverage, the temptation to shed their retiree prescription drug insurance plans and unload their retirees on the new but deficient Medicare drug program makes this outcome inevitable. In our opinion, these enticements are nothing more than a bribe for big business that represents a multi-billion dollar taxpayer liability," Norby said.

According to Norby, thousands of NRLN's 2 million members are ending their AARP memberships as a result of that organization's support of the prescription drug legislation. "Our NRLN board members are being overwhelmed by e-mails from people who are madder than hell at the AARP. Our members who opposed the bill are cutting up their AARP cards by the thousands to protest the use of their membership fees to pay for a $7 million campaign endorsing the prescription drug benefit legislation. With friends like AARP looking after retirees, who needs enemies," Norby said.

"AARP's description of the Medicare drug prescription legislation as 'not a perfect bill,' has to be the understatement of the year," Norby said. Among NRLN's objections to the new Medicare prescription drug benefit legislation are:

"It prohibits the government from bargaining over price with the drug companies and other suppliers.

"It places insurmountable obstacles in the path of re-importing cheaper prescription drugs from Canada.

"It leaves a huge coverage gap for the middle class, which will be outraged as details of the new legislation become available.

"It has the potential to limit options of retirees now receiving drug coverage through former employers or Medicaid.

"It provides only $1 of every $16 spent toward purchasing drugs seniors otherwise would not have had, with the balance going to displace spending by the private sector and state Medicaid programs.

"Its cost over the next decade, which could reach $1.5 trillion by some estimates, will only add to the funding burden facing Medicare for which Congress has made no provision.

"In endorsing this bill, AARP has broken faith with its members and older Americans in favor of special interests that market insurance and pharmacy services to its members. According to AARP's annual report, royalties from these arrangements accounted for more than a third of the association's $636 million in revenues last year, which we believe is a conflict of interest," Norby said.

"We're seeing an incredible deterioration in the way older Americans and retirees are being treated today. You can't pick up the newspaper that you don't find an account of someone pilfering dollars from their pension trust fund, or else lying about their corporate earnings. At NRLN, we're addressing these issues head on and we welcome support from AARP members and others who share our views and commitment to retirees across the country," Norby added. To learn more about NRLN and its objectives, visit the association's Web site at www.nrln.org.

Based in Washington, D.C., NRLN represents nearly 2 million retirees from Association of US WEST Retirees, Association of BellTel Retirees, Association of Prudential Retirees, Monsanto Retirees Association, along with groups from Boeing, GE, GM, IBM, Johns Manville, Lucent, AT&T, Portland Electric (Enron), SNET, Western Union, Raytheon, Continental Tire and others.