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NEWS CLIPS

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The Cost of Taxing Health Benefits

By James Klein and John Sweeney
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Congressional discussions over how to pay for health-care reform are being hindered by several myths that obscure the value of the employer-sponsored health plans covering more than 160 million Americans. Persistent misconceptions about the "tax-favored treatment" of employer-sponsored coverage are that it (1) leads to overconsumption of health services and (2) favors the wealthy.

With rising health costs burdening businesses and families alike, does anyone really believe that employers or workers lack incentive to hold down costs? The tax treatment of health benefits no more contributes to high health-care costs than the deduction for mortgage interest is responsible for housing costs. Clearly, both are affected by far more complex factors.

The cost of health coverage varies enormously based on geographic region and the age and health status of those in an insured group. Were benefits to be taxed, these common variations would lead to highly inequitable results, with some workers being taxed while their co-workers in other areas -- or those who are part of a group with a different demographic composition but who are receiving the exact same coverage -- would not. Those arguing about this should recall the extraordinary complexity created when the Tax Reform Act of 1986 similarly compelled employers to make difficult valuations of coverage and led Congress to an embarrassing repeal of that requirement.

The criticism that lower-paid workers with coverage get less value from the tax benefit than those in higher tax brackets is plain wrong. One of the great success stories of labor-management relations over the past several decades is that workers have negotiated for and received comprehensive coverage every bit as valuable as that extended to higher-income Americans. It is hard to think of a tax preference that is enjoyed more equitably across the income spectrum than the exclusion for employer-sponsored coverage. As a Commonwealth Fund report concludes, low-income households with employer coverage receive a larger tax break as a percentage of income than those in higher income households. And the related claim that the current tax exclusion favors those with coverage at the expense of those without -- even if it were true -- is completely inapplicable when everyone is covered -- an essential goal of reform.

A number of unintended consequences could result from taxing benefits. Removing the tax preference could well lead young workers to "opt out" of employer coverage, thereby destabilizing employer-sponsored "group" insurance. Moreover, a failure to adequately index the exclusion would lead to more and more Americans becoming subject to the tax over time -- just as the alternative minimum tax now captures far more people than originally contemplated. Other health-related benefits such as dental, vision and supplemental policies for particularly high-cost conditions such as cancer, as well as popular medical flexible spending arrangements, might need to be purchased on an after-tax basis -- effectively making them much more expensive.

President Obama has rightly set forth "shared responsibility" as a fundamental component of health reform. According to the Kaiser Family Foundation, in 2008 employers spent, on average, $9,325 per employee for coverage for a family of four, and hard-working Americans contributed an additional $3,354 in the direct employee share of premiums for that coverage. Clearly, workers and their employers sponsoring coverage already bear a tremendous burden.

While some argue for setting a limit on the tax exclusion, it bears noting that the entire exclusion equates to about 10 percent of the nation's staggering $2.4 trillion annual bill for all health-care expenses. That confirms at least two irrefutable facts. First, the tax exclusion is not responsible for high health costs. Second, for an amount that is roughly equal to one-tenth of the country's health tab, enlightened tax policy makes possible essential health-care coverage to more than 160 million Americans.

The employer-based health coverage system is crucial not only for the vital financial protection it accords most Americans but also for its role in improving health care. Unions and businesses, working together, are leading the way in developing and implementing strategies to transform how we pay for health services to encourage high-quality care and better outcomes.

The idea, now widely accepted, that we should change from a payment system based on volume of services to one based on value -- demanding from health providers evidence-based outcome measurements and implementing chronic disease management and wellness promotion programs -- was championed by private purchasers long before it became mainstream. A crowning achievement of health-care reform would be to build on that success rather than impose a new tax that could destabilize the employer-based system and the innovation it helps make possible.

7/20/2009 Traffic

AAR weekly report: North American railroads continue to log fewer loads

One week into 2009's second half, U.S. railroads' traffic tune kept the same beat as the first half. During the week ending July 11, their originated carloads totaled 262,210 units, down 17.9 percent, and intermodal volume totaled 176,887 units, down 23.7 percent compared with data from the same week last year, according to the Association of American Railroads.

Canadian railroads reported 58,741 carloads, down 24.6 percent, and 39,945 containers and trailers, down 21.4 percent. Mexican railroads reported 11,430 originated carloads, down 12.5 percent, and 4,725 intermodal loads, down 23.7 percent.

CN 2Q: "I think we've seen the bottom"

July 21, 2009

Canadian National Monday reported second-quarter profit fell 16%, reflecting the falloff in freight rail traffic, with net income at C$387 million (US$350 million), or 82 Canadian cents per diluted share, compared with C$459 million, or 95 Canadian cents per diluted share, in the comparable 2008 quarter. Operating income fell 18% to C$583 million.

CN revenue declined 15% to C$1.8 billion (US$1.6 billion). Operating expenses fell 14% due to cost-containment measures and a "significant reduction" in fuel prices compared with the comparable quarter, CN said. CN's operating ratio increased by one percentage point to 67.3%.

The strengthening of the U.S. dollar affected the conversion of the company's U.S.-dollar-denominated revenue and expenses, increasing second-quarter 2009 net income by C$15 million, or C$0.03 per diluted share, the railroad said.

But E. Hunter Harrison, president and chief executive officer, said, "I think we've seen the bottom. "

"The second quarter of 2009 saw a continuation of significant weakness in most of our commodity groups as a result of the current recession in North America and difficult global economic conditions, with all groups but coal registering double-digit declines in carloadings," Harrison said. "The biggest declines were in metals and minerals shipments, principally on account of a sharp reduction in short-haul iron ore movements in northern Minnesota, and in automotive and forest products traffic. Intermodal, grain and fertilizers, and petroleum and chemicals saw lesser declines. Coal was a bright spot, however, as a result of higher U.S. shipments resulting from our acquisition" of the Elgin, Joliet & Eastern Railway.

"CN's solid pricing has limited its top and bottom line slide," Dahlman Rose Director Equity Research and *Railway Age* Contributing Editor Jason H. Seidl noted. "While volumes based on carloads declined 22%, top line results came in just 15% below the prior year as average revenue per carload increased by 9% due in part to the continuing 4-5% increases in pure price gains, positive changes in traffic mix and FX (foreign exchange). While volume declines were significant, the operating ratio was 67.3%, vs. an operating ratio of 66.3% in 2Q08. On the balance sheet, the company maintains a strong cash position with $238 million increase in free cash flow year-to-date over 2008. While we believe that CN's optimism regarding solid pricing and a potential bottoming of the market may be well founded, we believe that volumes will continue to decline in the near term and that any turnaround in the market is likely to be slow and gradual. [Yet,] we reiterate our Buy rating as CN continues to be a way for investors to own a 'best in class' company that continues to generate strong free cash flow in a difficult operating environment. CN's prospects for the long-term are favorable despite the ongoing freight recession. The company noted that it sees some signs of improvement in the environment and that business volumes may have reached a bottom. Specifically, the company cites optimism regarding possible improvements in the merchandise business, auto production, steel production, chemicals, petroleum and forest products. We note that these last four industries are expected to enjoy positive growth rates over the next 6-12 months according to our recently published proprietary rail shipper survey."

Train topples building at W.VA. coal plant; 4 hurt

AP ONLINE

July 21, 2009

WHARNCLIFFE, W.Va. (AP) — Four workers are injured after a freight train derailed at a West Virginia coal plant and caused a nearby building to collapse.

Authorities say the train's conductor and two coal plant workers pulled from the wrecked building suffered minor injuries. A fourth worker had to be airlifted to a hospital with serious injuries.

The Norfolk Southern Corp. train was pulling up under loading equipment when it derailed and hit a support. The loading equipment collapsed and knocked down a building. Authorities did not immediately provide more details about the building.

The Black Bear Preparation Plant in southern West Virginia employs about 30 people. It belongs to a subsidiary of Abingdon, Va.-based coal producer Alpha Natural Resources.

Rail employment down 15,685 in year

July 23, 2009

Between June 2008 and June 2008, Class I railroad employment in all categories declined 8.45% to 149,614, a loss of 15,685 jobs. Hardest hit was the transportation (train and engine) category, where the numbers dropped by 13,305 to 55,434, a 17.45% loss.

In other categories, employment of executives, officials, and staff assistants was down 0.02% from a year ago to 10,047; professional and administrative, down 3.13% to 13,276; maintenance of way and structures, down 0.72% to 35,382; and maintenance of equipment and stores, off 5.37% to 28,619.

The transportation (other than train and engine) group showed the only year-to-year increase, with numbers up 3.46% to 6,856.

Total June 2009 employment was down 1.27% from May 2009.

The Surface Transportation Board released the latest employment figures on Wednesday.

NTSB releases cause of 2007 Ohio derailment

July 23, 2009

The National Transportation Safety Board has determined that the derailment of a CSX train in Painesville, Ohio, Oct. 10, 2007, was a combination of a rail problem and human error in fixing the track, according to local media. The report showed that the CSX Transportation division engineer responsible for track maintenance said the temporary rail joint involved in the accident was installed only 10 months before the incident.

"Contributing to the derailment was CSX Transportation's failure to weld the rail and, thereby, remove the temporary joint before the accident," the report reads.

The investigation is now officially closed.

The 31-car CSX train was traveling at 48 mph when it derailed, under the posted speed limit. The cars that jumped the track included seven tanker cars carrying ethanol, one carrying phthalic anhydride and one carrying liquefied petroleum gas. The cars carrying ethanol and those near them caught fire and about 1,500 residents in surrounding homes had to be evacuated and about 400 had to be out of their homes for several days.

The estimated damages topped $8.48 million, according to the NTSB report, and that included the environmental cleanup.

CSXT agreed to pay $607,599 for local out-of-pocket costs incurred by communities, fire departments and first-responders.

7/23/2009 2Q Financials

UP: Cost controls, service and safety gains add up to 'solid' quarter

Union Pacific Corp.'s second-quarter performance could best be described as the good, the bad and the ugly. The good: a 30 percent drop in operating expenses, 5 percent average increase in rates, record operating ratio, and all-time-best safety and service metrics. The bad: double-digit declines in earnings and income. The ugly: more than 20 percent decreases in carloads and revenue.

Overall, UP produced “solid” results despite a business environment that continued to be extremely challenging, said Chairman, President and Chief Executive Officer Jim Young during an earnings Webcast/teleconference held this morning.

“Usually, volumes increase from the first to the second quarter, but that was noticeably absent this year,” he said.

A 22 percent drop in traffic volume to 1.9 million units was the primary reason operating revenue plunged 28 percent to $3.3 billion compared with second-quarter 2008’s total. In addition, fuel surcharge revenue decreased by more than $500 million.

Automotive revenue plummeted 54 percent to $163 million as carloads fell 47 percent; industrial products revenue plunged 39 percent to $531 million as carloads tumbled 34 percent; chemicals revenue dropped 24 percent to $499 million as carloads decreased 22 percent; intermodal revenue fell 23 percent to $595 million as carloads dropped 18 percent; energy revenue decreased 22 percent to $715 million as carloads dipped 16 percent; and agricultural revenue tumbled 21 percent to $618 million as carloads fell 14 percent.

Operating income totaling $751 million dropped 19 percent and net income totaling $468 million, or 92 cents per share, decreased 12 percent compared with second-quarter 2008 levels. Analysts had

expected earnings of 76 cents per share on revenue of $3.5 billion, according to Thomson Reuters.

However, UP's operating ratio dropped 2.3 points to a record 77.3 primarily because of efficiency and pricing gains, and cost controls — operating expenses of $2.6 billion dropped 30 percent year over year.

The Class I cut fuel costs by 68 percent to $370 million; purchased services/materials expenses by 21 percent to $391 million; and compensation/benefits costs by 11 percent to $976 million. UP has reduced its workforce 10 percent to its lowest level since the Southern Pacific Railroad merger in 1996, said Executive Vice President and Chief Financial Officer Rob Knight.

During the quarter, the railroad also reached an average train speed of 27.4 mph, up about 5 mph, or 20 percent, compared with second-quarter 2008's average velocity, and registered a customer satisfaction index of 87, bettering the year-ago index by 4 points and matching the best-ever quarterly mark.

"We are fully positioned to handle more business when volumes return," said Young.

BNSF, controlling costs, sees profit rise in second quarter

July 24, 2009

Crediting cost control measures and lower fuel prices, BNSF Thursday reported second-quarter earnings rose to $404 million, or $1.18 per diluted share, compared to second-quarter 2008 earnings of $350 million, or $1.00 per diluted share. The 2008 earnings figures included a $0.31 per share charge related to environmental matters in Montana. Earnings results soundly surpassed analysts' earnings-per-share expectations of $1.00.

BNSF said operating expenses for the quarter declined $1.25 billion, or 33%, to $2.52 billion, compared with second-quarter 2008 operating expenses of $3.76 billion. The $1.25 billion reduction was primarily attributable to strong cost controls, decreased unit volumes, and lower fuel prices.

Freight revenue fell $1.13 billion, or 26%, to $3.22 billion in the quarter compared with $4.35 billion in the prior-year period. BNSF attributed the decline in part to a decrease in fuel surcharges of about $600 million. The remaining variance was due to lower unit volumes as a result of the economic downturn, partially offset by improved yields.

"BNSF had another strong quarter of cost control in an extremely difficult economic environment," said BNSF Chairman, President, and Chief Executive Officer Matthew K. Rose (pictured at right).

"We are beginning to see BNSF's volumes stabilize in our more economic sensitive businesses, and because of our continued focus on productivity combined with our long-term market opportunities, we are well positioned to benefit when the economy recovers," Rose said.

Morgan Stanley & Co. analysts William Greene and Adam Longson said BNSF's second quarter results tell a a "solid story": "Earnings surpassed our expectations, even when adjusted

for one-time items, and the degree of cost volume variability displayed in recent quarters is impressive." However, there may be somewhat less room for improvement, compared to other Class I's: "We expect BNSF pricing to trail other rails given its larger relative exposure to truck competitive traffic. Moreover, volumes are unlikely to recover as much as other rails on any rebound in auto production given limited auto exposure, previous customer wins and volume outperformance, and the loss of Hub Group traffic."

7/24/2009 Traffic

AAR tallies weekly carload totals, releases online traffic trends report

The year's 28th week wasn't much different than the preceding 27 for U.S. railroads. During the week ending July 18, their carloads dropped 17.9 percent to 268,553 units and intermodal volume fell 18.8 percent to 189,541 units compared with totals from the same week last year, according to Association of American Railroads (AAR) data.

Canadian railroads reported weekly carload volume of 57,810 units, down 24.4 percent, and intermodal volume of 40,198 units, down 22.3 percent year over year. Mexican railroads' weekly carloads and intermodal volume declined 7.3 percent to 12,543 units and 21.1 percent to 5,365 units, respectively.

For more information on North American railroads' traffic for the week ending July 18 and through 2009's first 28 weeks, follow this link.

Earlier this week, the AAR also released the June "Rail Time Indicators" report and launched a new online video summary.

Available on the association's Web site at www.aar.org, the monthly report combines rail traffic data with more than 15 key U.S. economic indicators, including consumer confidence, housing starts and industrial production. Also available on the AAR's Web site, the monthly video summary highlights trends from data the AAR collects on 19 major commodities hauled by North American railroads.