

December 11, 2009

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Speaker of the House of Representatives
United States House of Representatives
Washington, D.C. 20515

Dear Leader Reid and Speaker Pelosi:

As Washington contemplates health care reform, we urge Congressional members and the Administration to consider the impact of these efforts upon the broader economy.

Of significant concern to us in both the House and Senate bills are the provisions that would change the tax treatment of the Medicare Part D Retiree Drug Subsidy (RDS) Program to generate revenue to help offset the cost of health care reform.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 added a new prescription drug benefit to the Medicare program for senior citizens. The Act also included a 28 percent subsidy for employers offering retiree prescription drug coverage to encourage them to “stay in the game” (as opposed to dropping coverage, which would have resulted in additional costs for the Medicare program). The strategy was effective, and the subsidy has enabled employers to offer prescription drug coverage to millions of retirees who would have otherwise elected to participate in Medicare Part D. The employer-sponsored plans have resulted in reduced costs to the government and to the retirees.

Health care reform proposals now before the House and Senate include changes to the RDS Program that would negatively impact both retirees and companies. The change would make the 28 percent subsidy taxable to employers, effectively reducing the value of the subsidy. As a result, we would anticipate significant reductions in employer-sponsored retiree prescription drug coverage. Some analysts of the proposal have characterized the non-taxable nature of the subsidy as “double-dipping” because companies receive a tax-deduction for the cost of the coverage and then receive a 28 percent tax-free subsidy. However, the cost of the coverage is considerably more than the combined value of the deduction and the 28 percent. Companies are absorbing more of the total cost than either the retirees or the government. Taxing the subsidy means that more companies will eliminate or reduce the coverage, and more retirees will shift to Medicare Part D, which will create more cost for both the government and the retirees. If more companies than predicted by the Government Accountability Office shift away from coverage, then the provision could result in a net revenue loss rather than the predicted slight revenue gain.

Further, this change would result in large earnings statement reductions due to U.S. GAAP income tax accounting rules, which would require employers to immediately account for the present value of this tax increase.

The impact of the proposed Medicare Part D changes would be felt throughout the overall U.S. economy as corporate entities and investors would be forced to react. We urge our leaders in Washington to carefully consider the far-reaching effects of the health care reform effort and avoid unintended, negative consequences for all stakeholders.

Regards,



James Bell
Chief Financial Officer
The Boeing Company



David B. Burritt
Vice President & CFO
Caterpillar Inc.




Stephen L. Bruffett
Executive Vice President & CFO
Con-way Inc.



James M. Field
Senior Vice President & CFO
Deere & Company



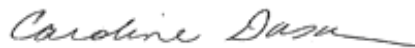
Matthew F. Hilzinger
Senior Vice President & CFO
Exelon Corporation



William James Wheeler
Executive Vice-President & CFO
Met Life, Inc.



A.J. Cederroth
Executive Vice President & CFO
Navistar, Inc.



Caroline Dorsa
Executive Vice President & CFO
Public Service Enterprise Group Inc.



John F. Killian
Executive Vice President & CFO
Verizon



Lawrence A. Zimmerman
Vice Chairman & CFO
Xerox Corporation

cc: Ms. Nancy-Ann Min DeParle, J.D.