

AK Steel uses VEBA to settle retiree health care lawsuit

AK Steel settled a lawsuit with a group of retirees from its Middletown Works by transferring their health care coverage to a voluntary employees' beneficiary association (VEBA) trust. The 4,600 retirees sued in 2006 after the company moved to cut retiree health care costs to improve its competitiveness.

The retirees will designate managers to direct the VEBA trust. AK Steel will fund the trust with \$468 million up front, followed by three annual contributions of \$65 million, for a total price tag of \$663 million. In exchange, AK Steel will have no further liability to the individuals covered by the agreement.

As of June 2007, AK Steel's total health care liability was roughly \$2.1 billion, half of which related to the Middletown Works retirees covered under the agreement.

Final note: The shot heard 'round the health care world may well have been fired this fall, when the United Auto Workers negotiated a VEBA plan to provide health insurance to General Motors workers. Now employers in many industries are considering the benefits of such a defined payout, compared to the costly, ever-increasing and unpredictable bill that comes with traditional health insurance plans. It's too early to say who the long-term winners will be.