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**National Association of Retired Sears Employees, Inc.**

# STRAIGHT TALK

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*Representing the interests of all Sears Retirees nationwide. Dedicated to the preservation and protection of their retirement benefits.*

## MANAGING YOUR HEALTH CARE COSTS

Managing your health care can be an overwhelming task. With the price of everything going up—from doctor and hospital visits to prescription drugs—how does one manage the cost of trying to keep healthy? While we all know that you cannot control the cost of your medical premiums, you can control the cost of your medical care.

In the November 2006 issue of *Money* magazine, there is an article titled “50 Ways to Cut Your Health-Care Costs.” The authors, Cybele Weisser, Amanda Gengler with Asa Fitch and Daphne Mosher, state that “*with a little effort and a lot of savvy, you can trim thousands of dollars from your medical bills—and get better care too.*”

Some of the cost-cutting tips you might not have thought of include the following:

**ASK FOR A DEAL.** The rate your doctor charges is not set in stone. According to a 2005 Harris interactive poll, about two-thirds of adults who negotiated for lower prices with a hospital or dentist succeeded, as did three out of five adults who bargained with their doctor. If you are paying out of pocket or face a high deductible, call your insurer’s customer service number and ask about the rates it pays doctors in your area, which are typically lower than the sticker price set by providers. Then ask your doctor if he’ll accept a similar amount.

**GET THE FACTS.** The more you know about the real cost of your care, the better you’ll be able to negotiate discounts. Costs for 30 common hospital procedures can be found at [www.cms.hhs.gov/healthcareconinit](http://www.cms.hhs.gov/healthcareconinit), the website of the Centers for Medicare and Medicaid Services, or you can pay \$7.95 for

medical cost reports from HealthGrades, a ratings company. Large insurers like Aetna, Cigna and United Healthcare have also begun to post rates online for members, though not for every area of the country.

**PAY UP FRONT, IN CASH.** Most doctors lose thousands each year on unpaid bills and spend thousands on credit-card processing fees. If you are footing the bill, paying cash in advance of treatment can get you a 10% discount on your bill, says Pam Deloney of the American Private Physicians Association.

**CHECK UP BEFORE YOU CHECK IN.** Radiologists, anesthesiologists, and other specialists don’t always accept the same insurance as the doctor who admits you to the hospital. Call your doctor to get the names of the medical providers who will be involved in your treatment, and verify with your insurer that they’re in the network.

**FOLLOW DOCTOR’S ORDERS.** Roughly half of all patients don’t follow instructions about taking medicine, which results in 10% of hospital visits a year, according to the Merck Manual of Medical Information. Simply doing what you’re told can save you your out-of-pocket share of the average \$8,200 cost of a hospital stay.

**EQUIP YOURSELF.** Hospitals charge a significant markup on equipment like crutches or braces, so you’re almost always better off buying them on your own.

**CHOOSE WISELY.** Don’t just take the easy way out during open enrollment and sign up for the same health plan as you had last year. These days the difference in premiums is small ... The real differences

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**The Independent National Voice of Local Sears Retiree Clubs and Sears Retirees Everywhere**

## Health Care *Continued from page 1*

lie in the plans' co-pays and deductibles. To figure out which option is best for you, estimate what your total annual costs are likely to be under each plan.

**WIDEN YOUR NETWORK.** You know that seeing an in-network doctor will save you 50% or more on the cost of treatment. But sometimes only an out-of-network specialist will do—say, if that physician is far more experienced in performing the procedure you need than in-network doctors. In those cases, it's worth calling your insurer's pre-certification department to explain why using the out-of-network provider is essential and ask for coverage at in-network rates. You've got a good shot. *"Insurers would rather strike a deal up front than go through an expensive appeals process,"* says billing expert Nora Johnson.

**DON'T BE DENIED.** Your insurer refused your claim? Fight back. Begin with a phone call to customer service, and if that doesn't work, put your appeal in writing. Document everything, including the times of calls, and the names of the reps you spoke with. *"Every plan has an appeals process that you must follow to the letter,"* says Robert Bland of [www.insure.com](http://www.insure.com), a consumer information website. For more information, download the Kaiser Family Foundation's guide to handling disputes with your private health plan ([www.kff.org](http://www.kff.org)).

**CHECK YOURSELF OUT.** If you're in the market for a new policy and you've applied for individual health, life, disability or long-term-care insurance in the past seven years, go to [www.mib.com](http://www.mib.com) to see whether this insurance industry antifraud group has a file on you. Request a copy (it's free) to make sure the information provided about your health status is right. If you find a mistake, ask for a correction in writing ASAP. Errors can drive up your premiums by hundreds of dollars a year.

**SPLIT 'EM UP.** High-dose pills are generally priced the same as their low-dose counterparts, so ask your doctor if you can safely split a higher-dosage pill in half. You'll save about \$179 to \$610 a year per prescription if you don't have drug coverage or 50% on your co-pays if you do.

**ASK FOR SAMPLES.** Drug companies give away tons of samples to physicians, so your doctor may be able to supply you with several weeks' worth of medication at no charge. Bonus: If you discover after a few days that the cream for your rash isn't working, you won't be left with an expensive tube of goo you can't use.

**SHOP MOM AND POP.** The federal government doesn't regulate prices on drugs sold at pharmacies, so your

costs can vary widely depending on where you buy. In New York City, for example, the price for 30 tablets of the widely prescribed antidepressant Paxil recently ranged from \$97 to \$180 at various stores. If you live in Connecticut, Florida, Indiana, Maryland or New York, you'll find drug prices posted online at the website of your state attorney general's office (search "prescription"); otherwise, call a sampling of pharmacies in your area. The best prices are often found not only at discounters like Costco and Wal-Mart but also at drugstores that aren't part of a chain, says University of Maryland School of Pharmacy professor Bruce Stuart. *"They have full authority to set their own rates because they own the place,"* he adds.

**GO FOR THE DISCOUNT.** No drug coverage? Visit the Partnership for Prescription Assistance website ([www.pparx.org](http://www.pparx.org)), which has links to more than 400 patient-assistance programs offering discounts on more than 2,500 medications. Most programs require you to demonstrate financial need. But some, such as Merck's discount card, are open to all income levels.

**JOIN A DISCOUNT CLUB.** No dental coverage? Enroll in a discount dental plan, offered through major insurance companies like Aetna, Cigna and WellPoint. You'll pay about \$100 a year (\$150 for families) and save 20% to 30% on the cost of treatment by participating dentists. Just make sure that the network has practitioners in your area before you enroll and that the plan itself is legit (there have been a few cases of fraud) by checking to see if it's registered with your state insurance commissioner ([www.naic.org](http://www.naic.org)).

**GO TO DENTAL SCHOOL.** If you're looking for bigger savings than the discount plans offer, try going to a clinic at a major dental school, staffed by closely supervised students in their final two years of training. (For a school near you, search for DDS/DMD programs at [www.ada.org](http://www.ada.org).) These clinics charge about 50% less than dentists in private practice. One caveat: You could end up spending twice as long in the dentist's chair (hey, they're still learning).

**FLOSS DAILY.** It's the best way to prevent periodontal disease (cost of periodontal treatment from \$200 for minor problems to \$2,000 or more to replace a tooth).

**GET MOVING.** Obese people pay about 26% more in medical costs than those who are in shape. So joining a gym or taking a dance class is a smart investment in your health.

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# N.A.R.S.E. Welcomes Working Sears Associates

As was reported in the Summer issue of Straight Talk, the National Association of Retired Sears Employees (N.A.R.S.E.) voted to amend its by-laws last Spring to open its membership to currently employed Sears associates contemplating retirement at some future date. We are happy to report that this action has received wide-spread support from both Sears retirees and current Sears associates.

Special thanks goes to the Sears store managers across the country who have brought our publication, Straight Talk, and information about N.A.R.S.E. to the attention of their local retirees and associates. Where retirement security is concerned, we're all in this together!

## **N.A.R.S.E.'s Conception**

N.A.R.S.E. will be celebrating its 10th anniversary in 2007. The organization was formed back in 1997 to protest Sears drastic cut-back of employees' promised, paid-up retirement life insurance, earned by their contributions and years of dedicated service. The eventual federal court settlement favored the Company, and was a great disappointment and lesson for retirees in how the legal system operates.

The federal judge who heard this case was sympathetic to the plight of the Sears retirees, but he stated that the law prevented him from granting the relief requested by the plaintiff retirees. He said that the law as currently written, in his opinion, would not permit it. Congress must grant the relief that the retirees were seeking, the judge added.

Since 1997 N.A.R.S.E. has continued to act as an advocate, **an independent national voice** for Sears Retiree Clubs and individual Sears retirees everywhere on issues affecting their remaining retirement benefits.

N.A.R.S.E. regularly communicates with thousands of retirees with its Straight Talk newsletter, and web site, [www.narse.org](http://www.narse.org), updated daily with current retiree and retail industry news and comments.

## **Never Too Early to Plan for Retirement**

N.A.R.S.E. continues to represent retiree interests and concerns involving their former trusted employer, Sears, Roebuck and Co., now the hedge-fund-owned and Kmart-dominated Sears Holdings Corp.

All American workers and Sears associates realize they must begin serious financial planning for their retirement years while they are still working. Current associates must start the planning process much earlier than ever before. Even ten years earlier may not be soon enough! In addition, these associates must take an active role in speaking out about retirement concerns and benefits with their employers, with their government representatives, and with the media.

N.A.R.S.E.'s Board of Directors decided to open its membership to currently employed Sears associates contemplating retirement at some future date after having been contacted by many working Sears associates who found their own retirement future security quickly slipping away, or already gone entirely. These same Sears associates have also told us that any information about Sears comes to them, not from Sears itself, but first

from the media, from N.A.R.S.E.'s web site, and from N.A.R.S.E.'s Straight Talk publication.

While earned and promised benefits are important to retirees, associates and their families, they are also concerned that the proud Sears traditions of customer service, guaranteed satisfaction, quality merchandise values and trust and fair treatment of employees and retirees will be continued by the new hedge-fund-owned, Kmart-dominated, payroll-reducing, cost-cutting Sears Holdings administration.

## **Sears Associates Welcome!**

N.A.R.S.E., the all-volunteer retiree association, welcomes the membership of actively employed Sears associates. We will continue being an independent, national voice for your retirement concerns.

As our mission statement sets forth, *"N.A.R.S.E. is a nonprofit membership organization dedicated to communicating with and educating the retiree membership regarding the protection of their retirement benefits and planning for their future economic security. N.A.R.S.E. is a vehicle of information to Sears Holdings conveying the concerns and experiences of its members. As a service organization, we provide information and resources, and offer a range of special services for our members. These include our periodic newsletter, Straight Talk, the N.A.R.S.E. website, legislative and regulatory advocacy, and other informational elements as needed."*

Any Sears associates interested in information about joining N.A.R.S.E. can either visit N.A.R.S.E.'s web site at [www.narse.org](http://www.narse.org); or contact N.A.R.S.E.'s chairman, Ron Olbrysh at [cro922@comcast.net](mailto:cro922@comcast.net) or 630-613-9039.

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**Health Care** *Continued from page 2*  
Or buy a pedometer (about \$20) and aim to walk at least 10,000 steps each day.

**DRINK FROM THE TAP.** Americans spent about \$10 billion a year on bottled water, \$3 billion on sports bars and \$23 billion on nutritional supplements last year. But most of that stuff has little, if any, proven benefit. So ditch the ginkgo biloba, drink from the tap and tote a banana, not a PowerBar, on your way to the gym.

**FORGO PRICEY EXTRAS.** Unless you're frequently in the water or snow, ditch the anti-reflective coating on your lenses and save \$40. And pass up ultra lightweight titanium frames too; plastic or metal frames are plenty strong and often cost hundreds less, says Richard Bensinger of the American Academy of Ophthalmology. Need reading glasses? Head to your local drugstore, where you can find perfectly good reading glasses for \$10 or less.

In addition to the above 20 tips, there are 30 others in this *Money* magazine article that could save you big bucks. Check it out. As the authors state, "*You don't have to choose between sound health and financial security.*" You can shop for value and cut your health-care costs.

#### **CONTACT SEARS**

If you have any questions or comments about Sears stores, call the Sears National Customer Relations Department at **1-800-383-4814**. Sears Holdings Corporation mailing address is: 3333 Beverly Road, Hoffman Estates, IL 60179.

If you would like a Sears speaker at your retiree club meeting, contact Nancy Turk ([nturk@searshc.com](mailto:nturk@searshc.com)) or call her at **1-847-286-3553**. The SHC general number is **1-847-286-2500**.

**New York Times**  
**October 7, 2006**

## **Everlasting Retirement**

**By Paul B. Brown**

How to make your money last forever is the cover article in this month's *Kiplinger's Personal Finance*. And *Money*. And *Smart Money*.

In what may be a first—or at the very least an extremely rare event—each of the financial advice publications at exactly the same time devotes scores of pages to “how to make money last a lifetime.”

They all use virtually the same language to describe the strategies that can keep you from outliving your money once you retire.

At the core, the advice in each piece is sound—and similar. Mary Beth Franklin does the best job at laying out the basics in *Kiplinger's*:

- Assume you are going to live a long time—at least 30 years—in retirement, so start saving as much money as you can today. “If you believe you can live comfortably in retirement on 85 percent of what you're making—a fair rule of thumb—then save and invest at least 15 percent of your gross income” today, Ms. Franklin writes.
- When projecting how much you are going to need, do not forget to factor in inflation and the ever-rising cost of health care.
- You will need to keep a significant portion—perhaps at least half—of your assets invested for growth, even after retirement. That means you still need to be invested in stocks as well as bonds and other fixed-income investments.

- Limit annual withdrawals during retirement to 4 percent (up to 5 percent) of what you have saved. That withdrawal rate can be increased only by the rate of inflation. For example, if you saved \$1 million for retirement, you could withdraw 4 percent, or \$40,000 a year. If inflation averages 3 percent this year, you could withdraw \$41,200 next year.

*Money* suggests that when you retire, you should think about using part of your savings to buy an immediate annuity.

“It's essentially life insurance in reverse,” Pat Regnier writes. “You permanently hand over a lump sum, and in exchange the insurer promises you a regular check until you die.”

A 65-year-old man who buys a \$100,000 annuity would receive \$713 a month, every month, until he dies, the magazine says.

*Smart Money* offers several rules of thumb for those considering ways to preserve wealth. For a rough estimate on how much money you will need, “multiply your expected annual spending, including taxes, by 20.” To protect against rising health care costs, add \$150,000 or more to the savings target.

It is easy to explain why we are seeing all these articles now. As *Kiplinger's* points out, there are now 41 million baby boomers who are 50 to 60 years old.

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## Making the Rounds

# AYLWIN LEWIS ADDRESSES SREC WEST COAST MEETING

**By Dave Rothacher, Club President**

On September 26, Aylwin Lewis, President and CEO of Sears Holdings was the guest speaker at the SREC West Coast meeting in Orange County, Calif.

*"We were very impressed with his presentation. He was very candid, and forthcoming about the present condition of the company and what management is doing to correct present problems,"* said Rothacher.

Lewis said that the Company's Mission is to build renewed customer relations with all who enter the store. *"Our number one job is to focus on every customer. Make them like us again,"* he said.

Important: Who is our customer? Then focus our efforts on them.

Mr. Lewis carries around cards in his pocket on customer relations and every day duties of how to make more money and improve the company. He calls them his "culture cards." These points should be in the minds of all employees every day.

### **Back to Basics**

Lewis said that going back to basics is critical for Sears. Marketing, well taken care of stores, friendly customers, because of friendly people working in the stores. Service and more service.

Teamwork: We bring in Store Managers to learn the needs of the new company, 40 every other week. We cover how to work together. Teamwork, integrity, accountability, positive energy and recognition through results are stressed. Each manager is asked to sign on to the program. Most do. About 50% of the managers have been replaced since the merger.

We are targeting military personnel for Store Managers. They are well trained in management and getting things done.

Unproductive inventory in Sears was 35% last year. It is down to 12.5% now. We need to buy items with higher margins so we can react faster to markdowns.

Investments. We have not been successful in most of the Sears Grand and Essentials stores, especially in

the North East and in Southern California. Lewis did not comment on what actions will be taken to correct this situation.

Up to now, we have not been able to combine K-Mart and Sears figures until the end of the month. In the next 16 months, all the electronic systems between the companies will be revised so they are compatible. Figures then will reflect the whole company on a daily basis.

### **Last General Merchandiser**

According to Lewis, Sears is *"the last General Merchandiser in the United States and our DNA is made up greatly with what we used to call Hard Lines. We are not going to lose that."*

The company will be focusing strong campaigns on Craftsman, Kenmore, and Diehard. Lewis said that *"those are our only real lines of strength and recognizable by the general public as quality products and wide assortments."* Some Kenmore appliances will be in K-Mart stores shortly.

The company has hired a design crew to help with Home Fashions. *"Home Fashions needs to be in the store as a link between Hard Lines and Soft Lines. The women will come in for that."*

In the last three years the company lost the apparel category. Customers do not even come in on our ads. Lewis added, *"Competition has not hurt us as much as we have hurt ourselves. But, it has turned the corner this spring. We have brought in a third party to help us develop that business."*

### **What can we do?**

Advertising: A third party is coming in to help the company with the circulars What categories bring in traffic? What categories pay the bills? What categories have importance in different parts of the year? There are too many scattered items in our ads.

How can we be more effective? There is discussion of an on-line circular. Martha Stewart has a strong contract with K-Mart but negotiations are going on regarding a Sears, K-Mart contract.

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## **SREC West Coast Meeting** *Continued from page 5*

Sears Holdings does not communicate with the press and stock analysts. This contributes to the rash of articles that are founded on guesswork rather than fact, and many are negative. The savings from eliminating the large public relations staff is in the hundreds of thousands of dollars. A rather long discussion on this topic left us convinced that this was a sound decision.

Based upon Mr. Lewis's presentation, our overall impression was that Sears Holdings is definitely spend-

ing money in the most effective areas that will improve our image with the customer, improving weak lines such as apparel and home fashions, and focusing our advertising on our strengths. There is a strong focus on how our personnel interact as a team and how customer friendly they are. We were convinced that making money was top priority.

We definitely felt that the emphasis was on making Sears a strong competitor in the retail field and not looking to dismantle it.

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## **Life Insurance Coverage**

As all Sears retirees know, back in 1997 Chairman Arthur Martinez announced that retiree life insurance benefits would be cut back for all participants who retired after January 1, 1978, at the rate of 10% per year on each retiree's life insurance amount in excess of \$5,000. At the end of 10 years, each retiree would have a \$5,000 retiree life insurance policy, regardless of the original amount.

As a result of this drastic cut-back of employee's promised retirement life insurance, that was earned by employees' contributions and years of dedicated service, a number of lawsuits were filed against Sears by retirees who alleged they had been promised "free" or "paid-up" life insurance for the rest of their lives. All lawsuits were eventually consolidated in the United States District Court for the Northern District of Illinois and assigned to Judge James B. Moran.

Sears denied that it violated any statutory or common-law obligation to its retirees, and asserted that it had a full legal and contractual right at all times to modify or terminate the terms of the insurance plan.

The case was finally settled during fall of 2001. Under the terms of the settlement, Sears could not further accelerate the life insurance reduction schedule that began in 1998 and it could not reduce the final insurance amount to less than \$5,000. In action, all class action members who timely mailed a claim form would be guaranteed at least one less annual reduction than the scheduled ten reductions. Therefore, their final insurance amount would be at least \$5,000 plus the amount of one year's reduction. The "skipped" reduction would be the reduction previously scheduled for 2003.

Recently, N.A.R.S.E. has received numerous phone calls, letters and e-mails from retirees and spouses of

retirees concerning the exact amount of remaining life insurance coverage that they have. As a result, N.A.R.S.E.'s Chairman, Ronald Olbrysh, sent a letter dated October 11, 2006, to Aylwin B. Lewis, Chief Executive Officer and President of Sears Holdings Corporation, concerning this reduction in retiree life insurance coverage. The letter reads as follows:

"Dear Mr. Lewis:

January 2007 will mark the 9th year of the reduction in retiree life insurance coverage. But for the elimination of this promised benefit, N.A.R.S.E. would never have come into existence.

Many Sears retirees are still confused about the amount of life insurance they will have in force in January after the final reduction is completed. In fact, just within the past month, I have received a number of phone calls and e-mails from either Sears retirees or their spouses asking about the life insurance benefits. I have referred these calls to Sears.

As a result, it would be a great service to Sears retirees if the Company would send each retiree a certificate indicating the exact amount of life insurance that will be payable to the designated beneficiary at the time of their death.

It would also be helpful if instructions were included in an accompanying letter detailing the necessary procedures to file a claim upon the retiree's passing.

Your positive consideration to this request will be most appreciated by all retirees and their families."

As of the printing of this newsletter, we have not received a response from either Mr. Lewis or Sears. If we receive a response, it will be posted on our web site at [www.narse.org](http://www.narse.org).

—STRAIGHT TALK—WINTER 2006—

# Carolyn Link, Longest Employee of Sears, Dies at 86

Carolyn Link, with the longest service of any employee in Sears, Roebuck and Co.'s history, died November 1 in the Loyola University Medical Center in Maywood, Illinois, after suffering a minor stroke while recovering from heart surgery. She was 86.

She had more than 67 years of service with Sears. For her last 38 years with Sears she was the executive secretary for former Sears President and CEO, Arthur M. Wood and during his retirement until his death last June.

She joined Sears as a sales associate in Union City, NJ, in 1939, and transferred to the Chicago area in 1940 as a stenographer at the Irving Park store. She moved to the company's headquarters in 1942 as a staff secretary and moved to the Midwest Territory office as an executive staff secretary in 1948. She moved to Minneapolis as secretary to the Midwestern Zone manager from 1950 to 1954, returning to the Midwestern Territory office from 1954 to 1967, when she became secretary to Arthur M. Wood, then Midwestern Territory vice president.

In 1968 she moved with him to Sears headquarters as executive secretary when he became Sears president, and in 1973 when he was elected chairman and chief executive officer.

It was her loyalty, dedication and willingness to stay with the company for 67 years that earned her the title of the all-time longest-tenured Sears employee, said Ernie Arms, a former news director for Sears for 25 years.

Carolyn spoke at N.A.R.S.E.'s 7th Annual Meeting on May 12, 2004. She recalled many of the highlights during her career with Sears. Ron Olbrysh, Chairman of N.A.R.S.E., asked her at that time why she was



*Carolyn Link speaking at the 7th Annual N.A.R.S.E. meeting.*

not a card-carrying member of N.A.R.S.E., since she was, like her boss, Arthur M. Wood, a strong supporter of N.A.R.S.E. She replied, "I can't. I'm not retired. I am still an employee of Sears." At that time, she was about 84!

Carolyn married her husband, Robert, in 1945, her family said. He died in 1985. Although the couple never had children, they treated their cousins, nieces and nephews as their own children.

"Many people, whether they were related or not, became her family," said her cousin Sandra Fox. "She was the most loving, generous and gracious individual that you'd ever meet."

Fox added that Link always lived according to a sign that hung in her Oak Brook home that read, "It's nice to be important, but it's more important to be nice." "She followed that right to the letter," she said. "She was an outstanding woman."

Her niece, Karen Greene, said "She was incredibly kind and generous."

She was a resident and former president of the Oak Brook Club, also was an active fund-raiser for the Scottish Home, a retirement residence her mother lived in for 14 years.

"It's a real shock to us here and the village," said Oak Brook, Illinois Village Trustee Jeff Kennedy, who worked with Link on several boards in the Oak Brook Club subdivision.

Many in Oak Brook remember her for her tireless contributions to the Oak Brook Civic Association, where she had served as president and was a mainstay for more than 35 years. She was also the editor of the monthly newsletter.

Dave Saxman, another past president, said her willingness to attend every village board meeting for years and publish the newsletter was indicative of her ability to do whatever she could to get the job done.

Two days following her death, Oak Brook Village President Kevin Quinlan ordered the village flag flown at half-staff in her honor. A public memorial service will be held later.

Mrs. Link was actively involved on many boards, including the Oak Brook Club, Oak Brook Civic Association and the St. Andrews Society.

In addition to her husband, Robert K. Link, her brother, her mother, and father, Harry Watrous, who was a commercial artist and friend of Norman Rockwell, preceded her in death.

—STRAIGHT TALK—WINTER 2006—

## Sears Holdings: Giant Retail Company or Hedge Fund?

You may think **Sears Holdings** is a giant retail company. But many ... were prepared to argue that point. Depending on the observer, the company, run by Eddie Lampert, is turning into a hedge fund, a private equity fund or the successor to Warren Buffett's famed investment vehicle, **Berkshire Hathaway**.

The identity crisis comes as the company reported second-quarter earnings on (August 17). As it did, it also told investors that it was considering a wide range of uses for its \$3.7 billion in available cash—including investments unrelated to its current business.

Herb Greenberg, the MarketWatch columnist, was among those calling Sears a hedge fund on Thursday. Here is why, in his words:

*"Sears has so much cash that instead of investing in the stores, which could boost sales, its board has given Chairman Eddie Lampert authority to invest the cash in marketable securities and other financial instruments, including derivatives. These investments may include significant and highly concentrated direct investments and/or related derivative positions with respect to the equity securities of public companies."*

Put another way, Sears is no longer a retailer, as we know retailers; it's a hedge fund.

**Morgan Stanley** analyst Gregory Melich presented a variation on that theme. He suggested in a research note that, given all the available options for spending Sears's cash horde, the company was on track to become a "publicly traded hedge/private equity fund." Later in the note, Mr. Melich used the term "K.K.R. of Retail"—a reference to the giant private equity shop Kohlberg Kravis Roberts.

A different comparison came from **Credit Suisse** analyst Gary Balter. He said in a research note on Thursday that Sears's cash-flow growth is looking good (though not as good as the previous two quarters). "However," he wrote, "that is not the story."

The story is Sears's cash and the \$6.2 billion that it has invested in inventory, which, Mr. Balter wrote, "over time can be an additional source of funds."

At a time that we are seeing [leveraged buyouts] in retail occur at significant premiums to public market values, Sears apparently sees similar value opportunities. Given the lack of contact at the company, we do not know if they are looking at expanding their retail investments, whether they are looking for suppliers, real estate or companies completely unrelated to the current Sears. This story has been positioned by some as a young version of **Berkshire Hathaway**, and it may be that we are about to see what direction the company can move.

Mr. Lampert has called himself a student of Warren Buffett, Berkshire Hathaway's chairman, and *BusinessWeek* magazine wondered in a cover

story in 2004, as Mr. Lampert was announcing Kmart's merger with Sears, whether the financier was "the next Warren Buffett."

While Sears reported higher second-quarter earnings ..., "a slide in total sales and comps provides more evidence that the company is bleeding market share to rivals such as **Wal-Mart** and **Target**," wrote TheStreet.com's Nat Worden.

Mr. Balter, for all his enthusiasm (he rates the stock "outperform," and calls it "intriguing"), cautioned that Sears is "**the highest-risk name**" among the retailers he covers and that it is "**clearly not for many investors.**"

### WHO DO YOU CALL?

If you have questions about your pension or other benefits, or an address change, death of a retiree or spouse, call Sears Retiree Service Center at **1-800-762-7327**.

General retiree health benefit questions can be directed to the Retiree Health Access line at **1-866-643-8742**.

For Group Universal Life Insurance call Marsh Customer Service at **1-800-845-6270**. For Aetna Rx Access Prescription Drug Plans call **1-877-238-6211**. For AARP Medicare Supplement Plans call **1-800-392-7537**. For Medco Health (prescription drug program for pre-65 PPO plans) call **1-800-233-7865**. And for Empire (pre-65) Blue Cross Blue Shield PPO plans, call **1-800-803-2432**.

# Bush Signs Sweeping Revision of Pension Law

**Editor's Note:** The following edited article is primarily taken from the August 18, 2006 edition of the Washington Post, by Peter Baker.

Last August, President Bush signed the most extensive revision of the nation's pension law in three decades as the federal government moved to shore up often-shaky private retirement programs for 44 million Americans and head off a crisis like the savings-and-loan bailout of the 1980s and 1990s.

The new law will force most private employers that provide traditional pensions to their workers to pump tens of billions of dollars more into those systems over seven years while making it easier to expand 401(k) and IRA retirement plans. But the law cuts a break to the financially troubled airline industry, where the pensions of tens of thousands of workers have been endangered.

The product of years of effort and a final round of intense negotiations, the Pension Protection Act of 2006 is one of the most significant bills to emerge from Congress in a year with particularly contentious elections ...

"Americans who spend a lifetime working hard should be confident that their pensions will be there when they retire," Bush said. "Members of both parties came together to pass a good bill that will improve our pension system while expanding opportunities for Americans to build their own next eggs."

Sen. Edward M. Kennedy (D-Mass.), a vociferous Bush critic, offered rare praise for the president's support of the pension legislation. "In this case, Democrats and Republicans worked together and America's workers and retirees came out the winners," he said ....

The new law is aimed at restoring stability to corporate pensions. More than 700 pension plans have collapsed in the past five years, and the federal insurance program that steps in, the Pension Benefit Guaranty Corp., has gone from a \$10 billion surplus to a \$23 billion deficit. Altogether, private pension plans are estimated to be underfunded by \$300 billion to \$450 billion, and some officials feared a collapse requiring massive taxpayer bailout.

The law ... requires companies to fully fund defined-benefit pension plans over seven years, closes loopholes allowing underfunded plans to skip payments and forces companies that underfund their plans to pay higher premiums to the pension corporation. Funding provisions of the law will not take effect for two years to provide time for a transition, and the airline industry and

*Continued on page 12*

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## CLUB NEWS

We always like to hear about your club's activities, members, speakers, events, etc. Please let us know what is happening with your group and if available, send pictures. Information can be either e-mailed to Ron Olbrysh, Chairman of N.A.R.S.E., at [cro922@comcast.net](mailto:cro922@comcast.net), or mailed to 624 E. Central Ave., Lombard, IL 60148.

### **WV Sears Retiree Association**

Shortly after the publication of our last *Straight Talk*, Robert Blair, Chairman of the Charleston WV Sears Retiree Association, informed us of the death of David M. McWatters, Jr., 80, who passed away on July 20, 2006, at his home in Charleston, WV.

David graduated from Marshall University, Huntington, WV, in 1950 and was president of Sigma Phi Epsilon Fraternity. He served in the U.S. Navy in both the Atlantic and Pacific Theaters during World War II and the Korean War, retiring as Chief with 13 years of service.

He retired in 1992 from Sears, Charleston, WV, after 41 years of service and served for many years as chairperson of the Charleston WV Sears Retiree Association. He was a 51-year member of the Baptist Temple, a member of the Charleston Usher Service, and the American Legion.

David is survived by his wife of 57 years, Dorothy Bartlett McWatters, two sons, a daughter, and seven grandchildren. He will be missed by friends and member of the Charleston WV Sears Retiree Association.

### **Sears Tidewater Retiree Club**

Don Giles, President of the Sears Tidewater Retiree Club, Virginia Beach, VA, informed us that his club hosted a picnic last September for members and guests at the Norfolk Botanical Gardens. It was a beautiful setting and a great time was had by all attendees!

Don's club has 91 paid members and always looking for new members.

—STRAIGHT TALK—WINTER 2006—

## Thinking Outside the Box

# Is Lampert Lighting Up Sears Holdings?

Last September, Stephen Ellis, writing for THE MOTLEY FOOL, asked whether Sears Holdings is an enigma to many investors? After the merger of two big retailers, Sears and Kmart that were struggling to compete with better-run discounters, many investors, according to Ellis, looked at this merger as a slide into irrelevance for two companies not able to generate value for shareholders.

Mr. Ellis then went on to say:

“This company is definitely being managed better these days, and with billionaire financier Eddie Lampert on board, it has more avenues available for value creation than the average retailer does. I don’t believe that investors fully appreciate those avenues. In fact, the stock is being discounted heavily, because of the uncertainty surrounding whether the company’s strategy will pay off.

**“Creating value in a non-linear fashion** Let’s take a closer look at the approaches available to Sears Holdings.

**“1. A vehicle for Lampert’s investment acumen.** The hedge fund manager has compiled nearly 30% a year on average, after fees, since his fund was launched in 1988. David Geffen, the famed media mogul, invested \$200 million with Lampert in 1992, and if Geffen had not repeatedly taken out funds for diversification purposes, the initial investment would be worth \$9 billion ...

“In its most recent 10-K, under “related-party transactions,” Sears Holdings spells out quite clearly how it intends to proceed with this approach in mind: “The Company’s Board of Directors has delegated authority to direct investment of the Company’s surplus cash to Edward S. Lampert subject to various limitations that have been or may be from time to time adopted by the Board of Directors and/or the Finance Committee of the Board of Directors.”

“Lampert has quite a bit of moolah to work with; Sears Holdings’ cash pile is currently at \$3.7 billion (including Sears Canada), and the company generated \$1.8 billion in free cash flow last year—far above what the company requires for its operations. If Lampert’s record is any indication, those results should be positive for the company. But much like Lampert’s hedge fund investors, ... shareholders will simply have to trust Lampert to perform.

**“2. A retailing turnaround.** Lampert has hired Aylwin Lewis, a relative newcomer to the retailing industry who previously was president of **Yum! Brands** after leading turnarounds at KFC and Pizza Hut, to serve as Sears Holdings’ CEO. The two men are focused on remaking the company into a “learning organization” in which experimentation is encouraged and employees are honored by being recognized for their financial literacy ....

**“In Eddie we trust?** Lampert is a key figure in Sears Holdings’ future success. He engineered the Sears-Kmart merger after acquiring 54% of Kmart in its bankruptcy and now owns a 41% stake in the combined company ....

“ ... Lampert hates to waste money and always seeks to invest every dollar at the highest return possible. Lampert put that philosophy into action at Sears Holdings, which cut capital expenditures by 50% to \$546 million in 2005 and has bought back nearly \$600 million in stock in the past year. Also ... , Lampert’s recent chairman’s letter makes clear that his goal is to increase the per-share value of Sears Holdings, by improving the company’s operations to make it a great company and by buying back stock to magnify the effect thereof.

“Lampert also rails against overfocusing on same-store sales. He argues that companies that place too much emphasis on increasing this metric may not be allocating capital most effectively .... Lampert also emphasizes that companies should consider the cost of generating profit—\$1 million in annual profits achieved by investing \$5 million is quite a different return from investing \$20 million for the same \$1 million profit. It is this type of owner mentality that drives him to obtain the highest possible return for shareholders’ cash—and, no doubt, his 41% stake in the company helps.

**“What about Sears and Kmart?** Aside from Lampert’s investing skills, a large part of the future return for shareholders has to come from what some observers call the impossible task of turning the retail giants around. Still, once again, Lampert and CEO Lewis have a plan to build long-term customer relationships with

*Continued on page 11*

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Lampert *Continued from page 10*

the best people available. After a nearly complete gutting of top management, Lewis is inviting 500 top managers, 40 at a time, to attend a daylong course called 'Sowing the Seeds of Our Culture.' Employees are being asked to 'drink the Kool-Aid' and make a choice: Buy into a new culture of risk-taking, testing, and making money, or leave.

"Lampert manages from 50,000 feet and provides strategic direction, and he is the company's No. 1 user of an online tool that allows managers to dissect the company in granular detail by store, region, and merchandise group. Lewis, on the other hand, manages at the ground level, working closely with top management and visiting stores to gather feedback.

"Will all of this work out for shareholders? I'd say the risk/reward is quite good, given that the stock is really pricing in minimal contributions from the turnaround and Lampert's as-yet unknown investment returns .... While the company is more expensive than Wal-Mart and Target, which both trade at a P/E ratio of nearly 18 with far better returns on equity, Sears may be more rewarding to the contrarian investor who is willing to invest where much uncertainty looms.

"The company's willingness to admit failure with the recent Sears Essentials concept, now renamed Sears Grand, and its readiness to introduce Sears products into the Kmart retail environment represent bold retailing moves that indicate outside-the-box thinking. I think shareholders who consider Sears Holdings shares at current levels will also be well rewarded for their own ability to think outside the box."

**[www.narse.org](http://www.narse.org)**

To get the latest and most up-to-date information about Sears and the retail industry, check out N.A.R.S.E.'s website on a daily basis.

Now that the elections are behind us, keep tabs on how your elected representatives are doing by going to our Home Page at [www.narse.org](http://www.narse.org). In the left column on that page, there is an icon titled: "Learn What Congress Is Doing and How Your Officials Are Voting." You can search either by ZIP Code or your State.

This is an extremely fast and easy way to follow the voting record of your Congressional representatives.

## Democrats Win: What's Next for Retail?

Commentary by George Anderson

(reprinted from [retailwire.com](http://retailwire.com)—11/8/06)

The Democrats are back in the House and this time they will be controlling it. And, with some voting (and recounting) still to do, it may just be the Dems take back majority control of the Senate, as well.

Yesterday's election is being seen by many as a strong rebuke of President Bush and the Republicans on a number of issues, including the war in Iraq and the perception that power has corrupted the GOP.

Now that the dust has mostly settled, it is time to have a look at just what a Democratic majority in Congress will mean for the broad retailing and food industries. Contrary to the polarizing rhetoric of the partisan politics, it may turn out that Democrats, while not in lockstep with retail leaders, are not as far out there on key issues affecting the industry as suggested by some.

Here are a number of key issues Democrats have promised to focus on in the new Congress.

1. **The minimum wage**—The Democrats have come out solidly behind a raise in the national minimum wage. While many, especially foodservice and small independent retailers, are solidly against any change, others such as Wal-Mart have come out in favor. The traditional argument that an increase in the minimum wage will lead to job losses is less effective in the current environment. The reality is many companies are finding they must raise starting wages to attract employees in a market where there are often more jobs than candidates.

2. **Healthcare**—A number of retail industry leaders support a national healthcare policy. Steve Burd, chairman, CEO and president of Safeway, once told the *San Francisco Chronicle*, "You're looking at the only food retailing chief executive officer that has ever gone to Congress and lobbied for some kind of national health care. We have de facto universal coverage in this country. It doesn't really cost \$1,500 a day to stay in a hospital. It's just that the uninsured get cared for, and we all pay for it."

The party has also said it will address the so-called "doughnut hole" in the Medicare system that has put many (the

*Continued on page 12*

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**Pension Law** *Continued from page 9*  
certain government contractors were given a break in meeting them. Airlines that have frozen their pension plans, Delta and Northwest, will have 17 years instead of seven to fully fund them, while others will get 10 years ....

In addition, the Pension Protection Act of 2006 ... is a far-reaching measure that contains provisions that will affect millions of Americans, not just the dwindling number of workers who are covered by pensions. Congress designed the law to prod workers into saving for their own retirement, among other goals.

For instance, the law encourages employers to adopt automatic enrollment of new employees into 401(k) plans. If you don't wish to participate, you can opt out; before, employees had to choose to enroll in their company's plan.

The idea is to make employees' procrastination work in favor of participation, not against. Your default contribution will be 3 percent of your gross income, rising automatically by 1 percentage point per year, up to 6 percent. (In addition, your employer may match that contribution, typically by 50 cents to the dollar.)

The change is expected to raise participation in 401(k) plans to 92 percent of eligible employees from 66 percent, says Dallas Salisbury, president and CEO of the Employee Benefits Research Institute, a non-profit research and educational organization. "Studies show that if people default in, they stay in," he says. "People really would rather be saving, but they just don't get around to it."

**National Association  
Of Retired Sears Employees, Inc.**  
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**Democrats** *Continued from page 11*  
Democrats say upwards of seven million) in the position of having to pay the entire cost of their drug coverage when they cannot afford to.

It has also pledged to fix Medicare Part D. While the program received industry support, albeit tepid in a number of instances, initially, many knew that changes would be needed.

**3. Environmental policy**—Here the Democrats seem to be more in step with the American public than Mr. Bush and his party. The Democrats have been strong advocates of supporting (re: tax credits and funding for research) alternative energy sources and taking steps to reduce the effects of greenhouse gases and global warming.

As a point of contrast, James Inhofe, the Republican chair of the Senate Committee of the Environment and Public Works, has called the threat of global warming "the greatest hoax ever perpetrated on the American people."

**4. Immigration**—Here is one area where the Democrats appear as

though they may be friendlier to the President's policy than even his own party. With the aforementioned job crunch, especially in low-end positions, businesses such as food service have advocated guest worker programs and other solutions rather than the wholesale deportation of illegal immigrants.

It would be foolish to suggest that the Democrats will be the party of the retailers just as it would have been equally foolish to suggest the Republican Party always promoted policies that were to the benefit of the industry.

There will be a number of sources of conflict between the retailing and related industries with Democrats. For one, the new Congressional majority is not likely to repeal the estate or so-called death tax. The Democrats are also likely to seek adjustments in tax policy that senior executives, if not their companies, will find fault with. As to what happens, time, as they say, will tell.