

July 19, 2007

## Retirees' Health Costs Loom Over U.A.W. Talks

By MICHELINE MAYNARD

DETROIT, July 18 — **For the first time in its 72-year history, the United Automobile Workers union is entering national contract talks with more retirees than active workers in its ranks.**

That shift has the greatest impact on medical costs. Detroit automakers cover the health care expenses of both current and former union members — more than 1.1 million of them combined — and their dependents. That adds up to an annual bill of about \$12 billion.

So even as the struggling car companies try to restructure, announcing plans in the last two years to shed more than 80,000 workers, their health care bill continues to rise as those people age.

The car companies' ability, or willingness, to continue paying those generous benefits, including negligible co-payments for drugs and doctor visits, will be a crucial sticking point when pivotal negotiations begin Friday between the U.A.W. and the auto companies.

It may also be a touchy issue for active U.A.W. members and retirees, who must grapple with whether one group should bear the brunt of any cuts more than the other.

The stakes are enormous for both sides in talks that General Motors calls “the most important in a generation.”

The union is trying to protect a signature feature of the middle-class lifestyle that its blue-collar members have enjoyed. The retirees, roughly 600,000 of them, risk seeing an erosion of benefits that they had assumed would be secure when their working days ended.

“This is what we were promised,” said Jim Ziomek, who retired in 2002 from a Ford Motor parts distribution center in Livonia, Mich., after working for the company for 34 years. “You’re going to have a pension, you’re going to have health care. Well, now all of a sudden things have changed and they want to take it away.” G.M., Ford Motor and the Chrysler Group say these so-called legacy costs have hampered their fight against surging foreign competitors. Health care and pension benefits cost them \$1,000 for each vehicle they sell, they say, compared with a few hundred dollars for companies like Toyota, Honda and Nissan.

The carmakers have long sought to lower these costs, but the status quo has remained largely in place after previous contracts, the most recent being signed in 2003. At that time, the companies were relatively healthy; they also feared a strike if they challenged the union.

The U.A.W.'s president, Ron Gettelfinger, has insisted publicly that neither the change in demographics nor the auto companies' decline alters the union's philosophy of fighting to keep previous contract gains. In fact, he recently said, workers have compromised enough on health care. The union has declined to say what will be discussed in negotiations.

But the union's stance has changed since the current labor agreement was signed.

Mr. Gettelfinger, for example, put up little resistance to plant closings at G.M., Ford and Chrysler; he cut deals for lower wages with bankrupt parts suppliers like Delphi and Dana; and most important, he agreed to arrangements at G.M. and Ford that eroded the fully paid health care coverage that was one of the union's most cherished achievements.

David Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich., said the two sides have no choice but to find a health care solution.

"You probably have to do this now; there is no delaying," Mr. Cole said. "If you put it off, the companies are going to be weaker, and the bargaining position may be less favorable" for the union.

In the last two years, G.M., Ford and Chrysler have collectively lost more than \$30 billion, prompting them to announce plans to shut more than two dozen plants, and put a variety of operations up for sale, including Chrysler itself, which has been bought from DaimlerChrysler by a private equity group.

Talks begin Friday at Chrysler, and move to Ford and G.M. on Monday. The current contract expires Sept. 14.

In recent months, one unusual solution has come up in pre-negotiations between auto executives and the union, according to people with knowledge of the deliberations.

The automakers and the U.A.W. could create a health care trust, called a Voluntary Employee Beneficiary Association, that could take over the responsibility for worker and retiree benefits.

That would allow the three companies to get their combined long-term health care liability, about \$100 billion, off their books, and would give the U.A.W. a more direct say in the benefits that its workers would receive.

But the solution carries an enormous price tag: the trust, known as a V.E.B.A., must be funded with cash upfront, with most of the liability accounted for.

The U.A.W. recently agreed to such an arrangement at Dana. It called for the company to pay upfront about 71 cents on the dollar for workers' estimated health care expenses, or about \$800 million.

In the U.A.W.'s case, the car companies would need to come up with far more money, probably in the range of \$60 billion to \$65 billion, experts say. The more money that is put in the trust, the less risk exists for the union.

But that presents a quandary for the automakers, who would have to fund it. The car companies have tens of billions of dollars in cash on hand, but need that money to run their operations, given that their debt ratings are in junk status, making it expensive for them to borrow money.

And Ford's assets are already mortgaged to fund its turnaround plan, although it could use whatever it gets from selling its European luxury brands for its part of a trust.

Yet, the concept still gives both sides pause. The companies' poor credit ratings mean they would pay high interest rates on the money they borrowed to start the trust. Given that, they might be better off leaving things as they are, and try to cut medical costs, some analysts say.

**Moreover, the union, not the companies, would be in charge of administering the huge fund, and would have to face tough choices if health care costs climb precipitously.**

The chances of creating such a trust stand at about 50-50 now, people with knowledge of the discussions said this week.

Without any progress on health care, G.M.'s bill could rise by 40 percent over the next decade and Ford's by 16 percent, Jonathan Steinmetz, an analyst with Morgan Stanley, said in a research report.

If auto sales slide further, and the car companies cannot make progress on their turnaround plans, Mr. Steinmetz said fears would grow that one or more of the auto companies could face bankruptcy.

He does not believe the situation can be fully addressed during the upcoming talks, but predicts the two sides at least will get started on the issue.

Whether or not a health care trust is created, the companies are likely to push the union to give up some medical coverage.

"It's a horrible circumstance," said Kevin Boyle, professor of history at Ohio State University who has written extensively about the U.A.W. He likened the health care issue to the national debate over Social Security: "It's a system set up so a larger number of

workers could support a smaller number of retirees. Now what do you do? Do you knock that down? On the other hand, if you knock that down, do you end up supporting Mom and Dad?"

There are tens of thousands of new retirees, most with more than 30 years on the job, who accepted incentives of \$35,000 apiece over the past two years to leave with full benefits. (Workers with less time on the job were offered buyout deals of up to \$140,000, which included a pension but no health care.)

**These retired workers are unable to vote on the next union contract, but they can cast ballots in elections for local union officials, who will be charged with the task of selling whatever deal the union comes up with to workers still on the job.**

Guy Barger, president of U.A.W. Local 685 in Kokomo, Ind., said the union needs to look out for its active members but cannot make a deal that neglects retirees.

"The retirees paved the way for us, they got us to where we are today," said Mr. Barger, whose union local represents 5,500 workers at three Chrysler transmission plants.

Despite concessions, the health care coverage remains comprehensive. Union members, for example, pay \$10 for office visits to their doctors, a benefit that used to be free.

Prescriptions, once \$2 apiece, are \$5 for generic drugs and \$10 for name brands. Emergency room visits are still free if a patient is admitted, but \$50 if they are sent home.

"Our main concern is health care," said Mr. Ziomek, the Ford retiree, who says his out-of-pocket medical costs have climbed to \$1,500, from about \$400, in one year. "If more of it's taken away, there's no way we can afford to go to the doctor."

Jim Stoufer, president of U.A.W. Local 249 in Pleasant Valley, Mo., said retirees need not be concerned. "They're going to come after us with guns blazing," Mr. Stoufer said of the auto companies. "But the U.A.W.'s not going to fold up."

Nollie Dixon, 84, of Detroit isn't so sure. "I just feel like, now that I'm old, they don't care, I ain't nothing to them," said Mr. Dixon, who retired from Chrysler in 1976 after 31 years. "Right now, I'm doing good, but how much longer is that going to last?"

Mary M. Chapman and Nick Bunkley contributed reporting.