

## AT&T, Verizon May Follow GM With Union Health Funds (Update1)

By Jeff Green and John Lippert



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Oct. 15 (Bloomberg) -- AT&T Inc., the biggest U.S. phone company, and No. 2 Verizon Communications Inc. may follow General Motors Corp. in trying to shift retiree health-care liabilities to a union-run fund, a move that has helped boost GM's shares 39 percent this year.

The largest U.S. automaker reached a landmark agreement with the United Auto Workers last month to transfer \$50 billion in such obligations to a Voluntary Employee Beneficiary Association, or VEBA. The telecommunications companies, which will both negotiate new contracts with their unions in the next two years, reported a combined \$71 billion in retiree liabilities last year.

"We'll be watching" how the GM union-run fund develops, said Alberto Canal, a spokesman for New York-based Verizon. He declined to give additional details. Verizon spends \$3.5 billion a year for health-care coverage for 900,000 active workers, retirees and dependents, he said.

Verizon and AT&T both have a union that may set a precedent for so-called VEBAs in separate talks with GM that started last week. The Communications Workers of America's industrial unit is considering a union-run fund for a GM plant it represents in Ohio. Michael Coe, a spokesman for San Antonio-based AT&T, declined to comment.

"Telecommunications are the next big group that will be looking at VEBAs," said Howard Silverblatt, an analyst at Standard & Poor's in New York. The ratings service estimates companies in the S&P 500 had \$387 billion in retiree health-care and insurance commitments at the end of last year.

### Setting the Stage

The GM agreement sets the stage for companies such as AT&T, Verizon and aircraft maker Boeing Co. to also restructure billions of dollars in retiree benefits, clearing out balance sheets and capping health-care costs that rose by an average of 8.4 percent last year in the U.S.

Like GM, AT&T and Verizon might also get a share-price boost from union-run funds, said George Foley, who oversees \$1.1 billion in assets at

Glenmede Trust Co. in Philadelphia. While the gains may be smaller, "the opportunity to move long-term legacy liabilities off the balance sheet is dramatic," he said.

AT&T shares have risen 18 percent, and Verizon has gained 22 percent so far this year.

Several companies are already looking into union-run funds, according to Andy Kramer, a partner and labor lawyer for Jones Day in Washington, who has helped GM, Goodyear Tire & Rubber Co. and auto-parts maker Dana Corp. establish such funds in the last two years.

He said he has received calls from telecommunications companies, auto-parts makers, and rubber and aluminum producers. He declined to name them.

Sparked in 2005

Interest in retiree health-care trusts has been rising since 2005, when GM set up a \$3 billion fund that it controlled with the United Auto Workers as part of a plan to require union retirees to pay health-care premiums for the first time, said Lance Wallach, who runs VEBA Plan LLC, a consulting company in Plainview, New York.

About a third of Wallach's business is talking to private-equity investors and venture capitalists about the risks of retiree health-care liabilities and the potential for unlocking their value from companies' balance sheets, he said. "These are venture-capital guys looking for an edge."

Exelon Fund

New accounting rules this year force companies to add retiree health-care costs as a liability on their balance sheets, a shift that turned GM and Ford Motor Co. shareholder value negative, Kramer said. Offloading the funds to the union will reverse the shortfalls.

Exelon Corp., the largest U.S. utility owner by market value, is considering a retiree health-care trust fund, said Jennifer Medley, a spokeswoman for the Chicago-based company.

Exelon had \$3.3 billion in retiree health-care liabilities at the end of last year, according to S&P.

The company's workers are represented by the International Brotherhood of Electrical Workers. Jim Spellane, a spokesman for the union, said in an e-mailed statement that "a number of utilities have VEBAs to cover retiree health-care costs." He declined to comment on Exelon.

Ohio Boost

**Prospects that AT&T and Verizon might follow GM and Exelon may get a boost from the negotiations between GM and the International Union of Electronic Workers-Communication Workers of America.**

**The industrial bargaining unit of the CWA is seeking a new agreement for 2,300 active workers and 21,000 retirees and**

**surviving spouses at GM's Moraine, Ohio, sport-utility vehicle plant that may include a union-run fund, local President Jim Clark, 52, said in an interview. The current agreement expires today.**

**The union will consider a fund for the plant if GM provides sufficient funding, he said. That may set a precedent for telecommunications companies, too. ``Anything we do in the labor area has an impact on all unions, not just the CWA," he said.**

**The Washington-based telecommunications union also represents workers at AT&T, Verizon and Qwest Communication International Inc. in Denver, the second-, fourth- and 13th- largest companies ranked by retiree obligations in the S&P 500. The union will negotiate with Verizon and Qwest next year and AT&T in 2009.**

Verizon's main focus, Canal said, is to promote legislative and private-sector reforms to make the U.S. health-care system more efficient. Hospitals could save significantly, he said, by recording more patient transactions electronically instead of on paper or by phone, he said.

VEBA Watchers

``We've watched developments regarding the VEBA," said Qwest spokesman Robert Toevs.

The telecommunications industry is similar to the automotive business in that it has large union retiree-health obligations plus ``readily available assets that you could contribute without killing your cash flow," S&P's Silverblatt said.

Verizon, AT&T and Qwest had combined profits of \$14.1 billion last year, compared with losses of \$15 billion at the three U.S.-based automakers.

Credit-default swaps tied to Verizon bonds, used to speculate on the company's ability to repay its debt, have fallen 3 basis points to about 18 basis points this year, according to CMA Datavision in London. A decline in the five-year contracts suggests improvement in the perception of credit quality; an increase suggests the opposite.

Contracts tied to AT&T have risen 5 basis points to about 23 basis points, CMA prices show.

For unions, the funds are a chance to lock in benefits before they are cut or eliminated.

Healthy Option

Even a union at a healthy company is more likely to consider a VEBA now that GM has one, said Harry Katz, dean of the School of Industrial and Labor Relations at Cornell University in Ithaca, New York.

``Unions don't have the bargaining power they once had, and this is one way to defend existing benefits and avoid less agreeable concessions," he said. ``The relative power of labor is lowered in both healthy and unhealthy industries."

Employers may be more willing to come up with the funds to create a retiree trust than they are willing to guarantee benefits far into the future, said Katz, who has studied telecommunication unions.

The new UAW fund for GM takes effect in January 2010. It will cover 412,356 active workers, retired members and surviving spouses and is designed to pay benefits for at least another 80 years, union President Ron Gettelfinger said. GM will contribute \$24.1 billion in cash and a \$4.3725 billion bond convertible to GM shares and pledge as much as \$1.6 billion over 20 years to help prevent a shortfall.

#### Allocated Forever

“One of the real benefits to the retiree in this whole deal is that sum of money is forever allocated; it can't be taken away,” said Kramer, who has represented companies for Jones Day since 1983.

The UAW has already run a retiree health-care fund at truckmaker Navistar International Corp. since 1994. Gettelfinger last week won an agreement with Chrysler LLC similar to the GM deal and is seeking one with Ford.

Unions also stand to gain greater influence over public and corporate policy as they invest in health-care funds, said Ron Blackwell, chief economist for the AFL-CIO, a federation of U.S. unions representing 10 million workers.

“They are going to be activist investors,” Blackwell said.

#### Machinists Might

The International Association of Machinists & Aerospace Workers at Lockheed Martin Corp. might consider a VEBA if one were proposed, said union spokesman Frank Larkin. The Society of Professional Engineering Employees in Aerospace at Boeing hasn't ruled out a VEBA, union spokesman Bill Dugovitch said.

Boeing spokesman Todd Blecher and Scott Lusk, a spokesman for Bethesda, Maryland-based Lockheed, both declined to comment on potential future bargaining issues.

The unions also take a risk by assuming responsibility for health care, said Susan Helper, an economics professor who focuses on labor issues at Case Western Reserve University in Cleveland.

The UAW has negotiated at least one union-controlled fund that failed. Six years after Caterpillar Inc., the world's biggest maker of earth-moving equipment, handed over control of a \$32.3 million trust to the union as part of a 1998 agreement, the fund ran out of money. Retirees who lost health-care benefits sued the company, receiving class-action status for the case in a federal court in Nashville in July.

The UAW applied lessons from the Caterpillar experience in making the GM deal, said Sean McAlinden, an analyst at the Center for Automotive Research in Ann Arbor, Michigan.

``The-life-and-death cycle of companies is getting more finite," McAlinden said. ``We cannot in this economy make long- term promises, and so these independent trusts will have to stand in their place."

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