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Why Detroit Retirees Have Healthcare Anxiety

By Joseph R. Szczesny / *Detroit Sunday*, May. 31, 2009



Workers at the General Motor's Fairfax Assembly plant in Kansas City.
David Bowman for Time

The health care of thousands of retired auto workers is about to change: On Friday the membership of the United Auto Workers overwhelmingly approved a restructuring plan with GM, according to UAW president Ron Gettelfinger. The plan gives the union's health care vehicle some promissory notes plus a 17.5% stake in GM and warrants to purchase another 2.5%. (See TIME's photos of General Motors factory-scapes)

Assuming the deals survive bankruptcy court, and experts expect it will, the change marks a new direction in health care for GM retirees, and now puts them in much the same camp as Chrysler retirees. Both groups will now receive health care benefits from two under funded vehicles known

as Voluntary Employees Benefit Associations (VEBA), which will have ownership stakes in the auto companies and representation on the corporate boards. Though the VEBA for each company was set up prior to bankruptcy, health care administration largely remained with the automakers. Now it's all VEBA all the time. (General Motors: 10 Milestones on the Road to Bankruptcy)

"We're taking a risk here," says UAW President Ron Gettelfinger. "We're going into this with an equity value of zero," he added, referring to the virtually worthless stock that both VEBAs are getting in lieu of cash that was owed them by the automakers. Then, pointing to his next battle, he said, "We've got to keep pushing for national health care."

To be sure, the VEBA financial responsibilities are daunting. As the automakers wind down their involvement with retiree health care, both GM and Chrysler have stopped revealing details of their related costs. However, GM vice chairman Robert Lutz recently noted that GM has spent more than \$103 billion on health care in the last 15 years — one big reason the company is in its current predicament. (See TIME's photos of Detroit's beautiful, horrible decline)

Future cost projections are even more chilling, since money to meet those projections is dwindling fast. In 2007 GM and the union estimated that it would require an investment of \$57 billion to provide future health care for GM's blue collar retirees, even after trimming some benefits. GM's VEBA is more than a little shy of that number. It had \$14.4 billion at the middle of 2008 and now has only \$9.4 billion in assets, which is beyond the reach of creditors but would barely last three years in the face of escalating health-care costs. Gettelfinger describes the rest of the GM and Chrysler VEBA assets as "paper money," referring to the stock, warrants and notes from two virtually bankrupt companies. Not a lot of optimism there.

Chrysler has only 78,000 retirees compared to GM's army of 377,000 but the financials don't line up any better for its VEBA, which has only \$1.6 billion in cash — a fact that is already raising anxiety inside the union. Chrysler is expected to get \$6 billion in new federal aid as it steps out of bankruptcy court but Chrysler/Fiat is obligated to steer just \$381 million into the VEBA next year. One possible save: in a little noted facet of the

new labor contract with Fiat, the VEBA can sell its shares to the Italian automaker via a private sale in the not too distant future. The price hasn't been negotiated yet, but the planning is already underway. "We'll have to sell the stock to fund the VEBA," says Gettelfinger, who notes that the trust is effectively free to sell shares as soon as they are registered.

Gettelfinger insists the union has already made substantial cuts to health care costs. In less than four years, blue-collar retirees have gone from modest co-pay and deductibles to footing 25 percent of their bill for health. The new UAW contracts also include reductions in benefits: dental and vision coverage will be dropped, effective July 1. "The UAW has always been willing to sacrifice to help these companies," Gettelfinger says. "When this started, we were on third base before the other stakeholders were even in the ballpark."

Even within the UAW, that note of selfless sacrifice rings a little less than true: "The government made us do it," says one union official.

Meanwhile, many union members fear this is only the beginning of the cuts that will be imposed on retirees, who were once promised health-care benefits for life. "This is very, very painful for the union," says Harley Shaiken, a labor expert from the University of California-Berkeley. "It's a huge risk because the VEBA could run out of money if these companies don't do well," he said.

"This wouldn't even be an issue at a non-union company because retirees wouldn't have health care," says Van Conway, a Detroit-based corporate turnaround specialist.

For the union, the hope is that nothing is really ever locked in stone since agreements can always be renegotiated. Says Conway: "The important thing for the union is they live to fight another day."