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2007 UAW CONTRACT TALKS

Health fund poses risks for UAW

Union would control retiree benefits but shoulder rising costs and investment volatility

Sharon Terlep / The Detroit News

Health care trusts run by the United Auto Workers and funded by Detroit automakers could go a long way toward easing a long-standing fear that millions of retired blue-collar autoworkers will one day find themselves without medical benefits.

But with that possibility, likely to be traded for job security guarantees at U.S. plants, comes a complex list of pros and cons that the UAW must consider before deciding whether to accept a deal that would shift responsibility for retiree health care from the automakers to the union in exchange for billions in cash and possibly company stock.

On one hand, the union would control the administration of retiree medical benefits, giving the automakers one less bargaining chip during future contract talks. The union also could demand valuable commitments -- including the promise of future job security -- from General Motors Corp., Ford Motor Co. and Chrysler LLC, which are desperate to lighten their retiree burden.

The benefits of the trusts, however, could come at a steep, permanent cost to the union. Chief among the risks: saddling the UAW with the vexing job of managing health care among an aging population at a time when health costs are likely to rise at least 6 percent a year, according to some estimates.

"They've had good counsel that has assured them that this is doable if they get the numbers right," said Michael Whitty, who teaches labor relations at the University of Detroit Mercy. "If they can walk away with something they can

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administer adequately, this arrangement may be the least dislocating short-run compromise that can bring the results the car companies are crying for."

GM, Ford and Chrysler will spend more than \$10 billion on health care this year, including \$6.4 billion for retirees and their dependents. A study by the Troy-based Harbour-Felax Group found that health care costs account for as much as \$1,500 of the \$3,800 per vehicle profit gap between Detroit automakers and their Japanese rivals for vehicles sold in the United States.

Retiree ranks have swelled as U.S. automakers downsized to get factory production in line with decreasing demand for their cars and trucks.

In what has emerged as a central issue in this year's labor talks, the three companies want to pay the union to establish what are called voluntary employee beneficiary associations, or VEBAs, which would be used to fund hourly retiree health benefits.

All three Detroit automakers proposed VEBAs in their initial economic offers to the UAW. Sources close to the talks say UAW leaders understand health care trusts make sense to improve the financial health of the car companies. The key issue now is how much the automakers will pay and where they'll get the money. For Ford and GM, there is an expectation that part of the payment will have to be funded with company stock, an idea that could be hard to sell to rank-and-file union members.

UAW leaders could not be reached Tuesday for comment.

The case for VEBA

A VEBA would permanently remove billions of dollars in liabilities from the books of Detroit's Big Three and shift them to the union. It also would allow the union to protect those benefits should any of the automakers file for bankruptcy.

"The union would no longer have to worry about health care benefits and no longer have to worry about the companies saying they can't afford it," said Gary Chaison, a professor of industrial relations at Clark University in Worcester, Mass. "It gives the union control over the most expensive and most important employee benefit."

Such a move likely would give the union a louder voice in the national health care debate, an issue in which the UAW is intensely interested. Controlling what would be a massive health care trust would make the union one of the nation's largest administrators of medical benefits.

To make VEBAs work, the UAW needs the automakers to ante up enough to cover rising health costs and offset the risk involved in price increases and volatility in the investment market.

The UAW could come out ahead financially. Accounting rules require the automakers to assume the worst-case scenario when setting aside cash for retiree health care liabilities. The level of funding for the VEBAs would be established under assumptions of a historically low rate of return on the fund and double-digit increases in health care costs. If neither scenario plays out, the UAW could end up with extra cash as years pass.

Analysts say a deal likely would include some sort of promise by the automakers to step in if the burden becomes too onerous.

"They're going to have to throw in some pretty strong guarantees that if it becomes too much of a burden, the companies would come back and administer part of them," Chaison said.

Autoworkers are skeptical

Many rank-and-file workers are skeptical of having their health care controlled by the union, according to interviews with more than two dozen UAW members. Job security and wage cuts are bigger concerns.

"Right now, people are at the point where they are trying to understand it," Chrysler worker

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Mike Parker said of the VEBA. "The devil is in the details and we don't have any details at the moment.

"I know VEBA is the front-page news because the company seems to be leaking information to the press. But job insecurity is a big issue for many members," Parker said.

At Monday's Labor Day parade in Detroit, more than a dozen rank-and-file UAW members said they feared wage cuts and a two-tier wage system.

"I'd be willing to give up a pay raise, a bonus and maybe pay a little bit more for my prescriptions and monthly co-pay. But don't touch my wages," said Kirk Williams, 51, a Ford employee.

"This VEBA idea, I think a lot of members can go either way on that. A lot of people haven't heard too much of the idea, so it's hard to have an opinion," he said.

Phil Smith, a GM employee, said "job security is No. 1. Health care is a close second" in terms of members' concerns, he said.

"This VEBA concept, those who know anything about it are opposed to it. There's major concern the funding could dry up," Smith said.

"At this point, most people don't really understand it."

Detroit News Staff Writer Louis Aguilar contributed to this report. You can reach Sharon Terlep at (313) 223-4686 or sterlep@detroitnews.com.

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