

A \$100 billion burden

Who would want to acquire a \$100 billion IOU? Detroit's automakers are hoping the United Auto Workers are up for the challenge.

The UAW and GM, Ford and Chrysler are currently in the midst of negotiating labor contracts before they expire on September 14. Chris Isidore reports in "Detroit's \$100 billion headache" that the automaker's goal is to cut costs in order to remain competitive with the Japanese. After last year's devastating combined loss of \$15 billion, the Big Three have begun to slim down their operations while also introducing new vehicles, however, they're finding it's just not enough to compete with more efficient rivals like Toyota, Honda and Nissan. The automakers agree that crippling rising retiree health care costs are the largest competitive disadvantage. Last year, GM alone paid \$4.8 billion in health care liabilities. Currently, Detroit's Big Three are paying \$1,200 to \$1,500 per car in health care costs, far more than their Japanese counterparts.

Health care costs, with a combined estimated price tag of \$100 billion, are what the automakers are hoping to pawn off onto the UAW during negotiations. The automakers are hoping to negotiate a deal like the agreement reached at the end of last year between Goodyear Tire & Rubber with the Steel Worker's Union, as outlined on June 7, 2007 in the hot topic "When \$1 billion isn't enough". Goodyear funded a trust with \$1 billion for future healthcare benefits, leaving all future health care liabilities in the hands of the union. The \$1 billion in funding was \$300 million less than the liability.

"On the plus side for the UAW, such a fund would give it control of health care coverage for its retired members, benefits that would continue if one or more of the automakers were to go bankrupt. It also theoretically give the Big Three a better outlook longer term, allowing them to be more competitive with the Japanese automakers who are not burdened by the retiree health care costs" reports Isidore. On the down side, "agreeing to take on the health care costs would put the union in the uncomfortable position of being the one to cut benefits or coverage or raise out-of-pocket costs for its retired members if the funds assets don't perform as planned or if health care costs rise faster than expected. [For the Big Three] finding those funds would be difficult as well, especially with GM and Ford debt rated as junk, which raises their cost of borrowing."

Giving the union control of retiree's health care is about alleviating a \$100 billion burden from the Big Three, not ensuring health care for retirees. Interestingly, this is in some ways a trip back in time. In the early days of industrialization, some of the first unions pooled the risks of their members by providing assistance to injured workers and even paying for funeral expenses to those killed on the job. At the time, neither the government nor the companies themselves covered these kinds of expenses. In fact, companies only began to provide health benefits in earnest during the Second World War, when they were used to get around government wage controls. Eventually, health benefits were generously given to retired union members as well. It appears that we've come full circle in a sense, with the unions themselves again assuming these roles, even as the roles themselves have expanded in scope.

In the end, future retirees and current retirees are likely to be the ultimate losers. No matter what deal, if any at all, the automakers and union make, health care costs are rising and there is simply not enough assets to pay the costs. Benefits will most likely be cut as premiums rise; it doesn't matter who's in charge of handing out the shrinking checks while charging more, it is still going to hurt.

[CNN Money - Detroit's \\$100 billion headache](#)