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Health tab to soar at GM

UAW deal cuts Ford's cost, but not for long

Bryce G. Hoffman / The Detroit News

Health care costs at General Motors Corp. and Ford Motor Co. will continue to rise at an alarming rate and are likely to spark a showdown with the United Auto Workers during upcoming contract talks, according to a new report released Monday by the respected credit-rating firm Fitch Inc.

Fitch looked at cash costs for health care at both GM and Ford and concluded that concessions made by the UAW in 2005 have not been enough to offset inflation-driven increases in health care spending, production cuts and the flow-back of workers from both automakers' former parts subsidiaries. Ford will see some modest gains as a result of its blue-collar buyout program, but both companies will continue to trend upward.

"The recent health care agreements with the UAW, changes to salaried health care programs and employee buyouts have pushed out the slope of the health care curve, but have done little to erase, or even narrow, the significant competitive disadvantage that these costs represent versus the transplant competition," Fitch stated in its report. "Health care will be the No. 1 issue in the upcoming labor talks, which are likely to be contentious."

Cash costs per vehicle grows

Assuming a modest health care inflation rate of 6.5 percent, Fitch found that health care cash costs for each vehicle built in the United States would climb to $1,064 at Ford and $1,783 at GM this year. Fitch believes Ford's per-vehicle health care costs will actually decline in 2008, dropping to $969 per vehicle, before heading back up in 2009 and beyond. But GM's costs in 2008 are expected to continue to soar to nearly double that figure -- more than $1,900 for each car and truck it builds in this country.

Fitch said GM is in a worse position than Ford because it has an older work force and its recent blue-collar buyout was more focused on convincing retirement-eligible workers to leave with their health care benefits than on persuading younger employees to sever their ties with the company. In contrast, Ford estimates that about half the workers who signed up for one of its hourly buyout packages opted for one that did not include lifetime health care benefits.

To make matters worse, GM will be assuming retiree obligations for thousands of former Delphi Corp. workers as part of a bailout deal with its one-time parts subsidiary. That will add more than $300 million in new health care costs to GM's ledger in 2007, according to the rating firm's analysis.

"Obviously, health care is something we have a definite interest in," said GM spokeswoman Michelle Bunker. "But we're not going to speculate on what we may be looking at in the future."

Fitch estimates that GM's cash spending on health care will increase by 9 percent from 2006 to 2008, while Ford's is expected to decline by about 13 percent during the same period.

"The decline in Ford's costs in 2008 are the result of the changes to health care programs and employment levels, and should not be viewed as a trend line," Fitch stated. "Health care inflation will result in this line resuming its upward climb in 2009."

Ford spokeswoman Marcey Evans said Ford's overall health care costs still topped $3 billion in the United States last year.

"Clearly, health care remains a challenge and a competitive disadvantage for all U.S.-based automakers," Evans said, "but we're not going to speculate or comment on specifics concerning 2007 contract negotiations."

The UAW declined to comment on the report.

No more concessions likely

Fitch said it is unlikely that the UAW will give either company enough relief to significantly reduce this competitive disadvantage during the upcoming national contract talks, slated to start later this year. After all, the modest concessions already given to the companies were ratified by workers by the slimmest of margins.

But Dennis Virag, president of the Automotive Consulting Group Inc. in Ann Arbor, said the issue will be hard to ignore.

"Health care and work rules: Those are the two major areas that I see being put on the table by GM, Ford and Chrysler," Virag said, adding that Fitch's conclusions are consistent with his own analysis. "Those are the issues that the UAW is going to have to deal with."

One way to deal with health care would be for the union to assume responsibility for retiree health benefits.

In recent months, a great deal of speculation has swirled around the possibility of a health care agreement similar to one recently negotiated between Goodyear Tire & Rubber Co. and its primary union, the United Steelworkers. Under the terms of that agreement, Goodyear agreed to fund the establishment of a union-run trust that will be responsible for providing health care benefits to retired hourly employees, effectively capping its health care liabilities.

Fitch said a similar deal is unlikely to be part of the next UAW contract because the Big 3 have much higher health care liabilities and greater capital restraints. "It certainly underlines the creative thinking that is occurring around this issue," the report stated.

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