Scenario #1 – Bob Martin, United Auto Worker member

Bob is age 29, a member of the United Auto Workers (UAW), and employed at U.S. Motors plant. His wife, Sally, is a homemaker and cares for their family of 5. He and Sally have 3 young children, ages 1, 3 and 6. Their 6 year old has had asthma since he was 2 and sometimes needs emergency room services during an asthma attack. Bob has an AA degree and has always worked in the metal trades. Sally finished high school, married Bob, and worked at Sear's until their first child was born.

Bob's hours have been cut to less than 40/week, with the possibility of his being moved to half-time employment sometime in 2008. At half-time hours, he would fall out of the generous health care benefits offered by U.S. Motors. He is considering whether to look for another job with benefits or count on the possibility that the UAW will successfully bargain for holding on to his current level of benefits that include medical, dental, and vision.

U.S. Health Care and the Cost of a Car

Canadian Econometrics report (July 2005)

The auto industry spends more on employee health care than it does on steel—health care adds $1500 US to the cost of a car [as of 2005].

General Motors was once a powerhouse of U.S. industry. Now, while still a major producer and employer, GM's losing money hand over fist and has had its bonds downrated to junk status. USA Today looked into the details of GM's health insurance plan not too long ago.

> The American auto industry is one of the last bastions of generous benefits that were once part of many employers' largess: fully paid health insurance, retiree medical coverage and pensions.
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> At a time when the average American company requires workers to pay more than $2,000 a year toward family health insurance premiums, the auto industry is among the 4% of employers that offer free family health coverage. Retirees, who outnumber workers by more than 2-to-1 at General Motors and represent significant percentages at the other major U.S. automakers, get the same deal.
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> Unionized autoworkers can choose plans for which they pay nothing toward monthly premiums. Nationally, workers pay an average of 16% of the premium toward single coverage and 28% of the premium for family policies, a Kaiser Family Foundation survey of employers shows. That's an average of $558 a year for single employees and $2,661 for families.
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> Nationally, only 36% of large firms offered retiree health benefits in 2004, down from 66% in 1988, the Kaiser survey shows. Outside the auto industry, retirees who do get insurance coverage pay an average of $187 a month toward it, says Brian Johnson, senior research analyst at Sanford

> Bernstein. Writing in a June 10 Bernstein Research Call report, he says GM alone could save $1.4 billion in cash annually if it began charging retirees $150 a month toward their health costs.

Not bad coverage, is it? That bit at the end about forcing retirees to pay a premium - normally that kind of suggestion is denounced as an attack on the elderly, but does anyone doubt that GM also has a pretty generous pension plan?

Those retirees account for a pretty hefty chunk of GM's health care costs. According to conservative columnist George Will:

> Health care for retirees and their families -- there are 2.6 of them for every active worker -- is 69 percent of GM's health costs. GM says it has $19.8 billion in cash and normal mortality rates will reduce the ratio of retirees to active workers.

Shifting health-care costs doesn't exactly lower them

Today's Topic: Health-care hunt is hard work

The Tennessean.com Monday, 12/17/07

Our View

Most Americans weren't affected by union settlements with U.S. automakers this year, but it behooves the nation to watch how those settlements work out because the situations are perfect examples of how health-care costs are crippling the country.

General Motors, Ford and Chrysler — facing fierce competition from foreign competitors — found themselves crumbling under the expense of providing health-care benefits. The United Auto Workers, put in a corner to keep jobs afloat, took on the enormous responsibility of handling retiree health-care benefits. The deal lifted a heavy weight off the struggling companies, who agreed to contribute billions of dollars to special trust funds for the care, and it probably saved a lot of jobs, but it also plopped that burden smack on the back of the union to handle those funds. No one else has been able to solve the problem of managing health-care costs. It will be interesting to see if the unions' trustees can administer the plans effectively, because their odds don't look good.

The trusts are known formally as Voluntary Employees Beneficiary Associations, or VEBAs, which are provided under the Internal Revenue Service Code section 501(c)(9). They are not new, having existed since 1928, but their application in the current financial climate is a significant development. It is doubtful VEBAs will save the day on health care, so it's a good idea for the country to look for bigger, better alternatives.

The union agreements with automakers are vivid examples of what is probably the most difficult issue for American families today — the ability to afford health insurance. And bear in mind that's just affording insurance, not health care itself, which no one can afford, unless they're Bill Gates. The outrageous cost of health care is bringing huge companies to their knees. The issue should no longer be whether anyone can find solutions to those costs but about how long this country is going to put up with them.

One proposal put forward has been to allow employers and unions to buy into Medicare for early retirees age 55-64. The logic is that the administrative costs in Medicare are far lower than the administrative costs of insurance companies, which only compound the current problem because insurance companies have their own profit motives. This would put those retirees into a single-payer health-care system, which of course would cause volcanic eruptions in some circles because it would be a "step toward socialized medicine."

The single-payer system known as Medicare works. Moreover, people seem to like Medicare. If buying into Medicare before age 65 is a way to help solve the crisis hurting workers and employers, who could complain? It's worth considering.

For now, the country is left to deal with unreasonable costs and to watch valiant efforts like a last gasp from a labor union on how to handle health care. But this much should be certain: If a labor union is able to show everyone the way and manage costs under the current health-care system in this country, that union will go down as one of the biggest heroes in American history.

UAW's retiree health benefits takeover could change way care is delivered

(Nov 29, 2007 –The Canadian Press)

DETROIT - On Sept. 26, something happened that is likely to wreck Ben Carter's time-honoured health care business model.

That's the day the United Auto Workers and General Motors Corp. settled on a revolutionary new contract that shifts US$46.7 billion worth of retiree health care costs from the company to the union.

As chief operating officer of the Detroit Medical Center, Carter sees the deal as a major change in the way health care is priced and delivered. He and others see it as a catalyst for change in a business that costs employers millions and rises in price by double the rate of inflation almost every year.

"We're viewing it as an opportunity to work with the union leadership and their retired members to design a better mousetrap that keeps them healthier, have a better standard of living and reduces the cost of providing that," Carter said.

The UAW worked similar deals this year with Ford Motor Co. and Chrysler LLC, turning the labour union into one of the largest health care consumers in the United States.

In early 2010, the union will become responsible for the health care bills of 540,000 retirees and their spouses, a population equal to that of Portland, Ore.

The numbers give the UAW bulk buying power and enough clout to bring costs down, according to some experts. Retirees, now on the same team as the entity paying their bills, will have incentives to live healthier and limit their health-care use. Some observers also say the move will lead the union to step up its lobbying efforts for a national health-care system.

If the union is successful in its cost-cutting efforts, those reforms likely would spread to companies and other health-care consumers similar to the way health maintenance organizations led to cost cuts decades ago, said J.B. Silvers, professor of health systems management at Case Western Reserve University in Cleveland.

"If they come up with better models for how to provide health care, that will diffuse across the system probably pretty fast," he said. "In that sense, everybody's going to benefit."