Behind the UAW “health care co-op” scam

By E. Galen
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In the course of this year’s contract talks with GM, Ford and Fiat-Chrysler, UAW President Dennis Williams has been promoting the idea of a “health care co-op,” but not giving any details of how that would be set up, let alone how the health benefits of workers would be affected.

Although the proposal has been taken out of the current contract proposal with Fiat Chrysler—due to overwhelming suspicion by workers that it would be used to cut benefits—Williams has pledged to bring it back after the ratification vote, and the plans for a “co-op” are being actively pursued with GM and Ford.

One clue to the UAW’s intentions came when Williams recently told the *Detroit Free Press*: “We’ve got to do what we did with the VEBA for our (active) members.” He was referring to the Voluntary Employees Beneficiary Association created to provide health care coverage for retirees in the 2007 contract. The UAW Retiree Medical Benefits Trust was started with a $59 billion infusion of cash and stocks from the companies. In return the companies wiped their hands clean of any future obligations to pay for the medical coverage of 800,000 retirees and their dependents.

What is it about the VEBA that makes it so appealing to the UAW and Detroit Three?

The nature of the VEBA

For many years, corporations have worked to greatly reduce what they pay for employee benefits. For example, the shift away from retiree pensions to 401(k) plans saved employers money, since they could allocate a defined amount of money toward a 401(k) and not fund guaranteed pension benefits, whose costs were continuously rising.

With health care costs increasing at a rate higher than inflation, companies began to consider a similar model that could reduce their expenditures for health care coverage. That is, companies would give employees a specific contribution and workers could use it to pay for benefits. This is called a “defined contribution” approach, currently being promoted under such misleading labels as consumerism, consumer-driven or consumer-directed. High-deductible health plans with health saving accounts or health reimbursement accounts are part of this trend.

The VEBA takes this defined contribution approach even further. With its introduction for retirees, auto companies shifted from providing a specific health insurance benefit package (that is, defined benefits) to making a defined contribution to the VEBA.

The UAW-run trust pays health benefits for retirees, but only to the limit of its resources.

When health care costs exceed the funds available, benefits decrease. When the funds run out of money, benefits end.

The trust agreement makes this very clear:

“Section 3.5 **No Guarantee**. Nothing contained in the Trust or the Plans shall constitute a guarantee that the assets of the Trust Fund will be sufficient to pay Benefits to any person or make any other payment. The obligation of a Plan to pay Benefits provided under such Plan is expressly conditioned on the availability of assets attributed to the Separate Retiree Account associated with that Plan to pay Benefits. This Trust Agreement creates no obligation for any Company to deposit or remit any amount to the Trust Fund.”

In addition, retirees cannot hold anyone responsible if the trust collapses. It’s not a contract:

“Section 6.5 **Continuance of Plans**. The Committee, the Trustee, the Independent Fiduciary, the Companies, and UAW do not assume any contractual obligation as to the continuance of the Plans, and no such party shall be responsible for the adequacy of the Trust Fund to meet and discharge any liabilities under the Plans.”

The structure of the UAW trust

An 11-member committee oversees the UAW Retiree Medical Benefits Trust, five UAW-affiliated representatives and six independent trustees. The trust was launched January 1, 2010, when it became the largest non-governmental purchaser of retiree health care in the United States.

From the beginning the trust was underfunded by at least $36 billion. Its requirements were based on a series of unrealistic projections of health care costs and other factors that turned out to be wrong. The 2007 funding projections did not envision the 2008-2009 economic meltdown, the GM and Chrysler bankruptcies, or the auto plant closures that followed, which led to more workers retiring earlier than expected.

As investments declined and more retirees needed the benefits, the trust committee cut benefits and increased out-of-pocket costs. For several years, it eliminated vision and dental care entirely.

According to *Crain’s Detroit Business*, active union workers pay six percent out-of-pocket for health care costs (which vary by company and by state), while retirees pay 11 percent, nearly double.

There are several retiree health plans offered by the trust. Some examples show what may be in store for active employees in the future:

• TCN (Traditional Care Network): Office visits to specialists are not covered

• PPO: Primary care doctor office visits have a 50% copay

• HMO: Doctor office visit have a $35 copay

According to a recent Bloomberg report, the estimate of unfunded future expenses of the UAW Retiree Medical Benefits Trust grew another $16 billion last year to a total of $20.7 billion. The trust’s assets fell 1.6 percent to $60 billion in 2014 from 2013, according to Labor Department figures, while projected obligations increased 23 percent to $80.9 billion. One of the factors adding to future costs was the result of new estimates of longevity by the American Society of

Actuaries.

Having taken over the business of cutting health care benefits for the employers, the UAW now has a direct financial incentive in lowering the life expectancy of current and future retirees.

Employers prepare for “Cadillac tax”

The UAW’s “health care co-op” is in line with the Obama administration’s policy of shifting health care costs from the employers and the government onto the backs of working people. Like Obama, Williams has made the specious claim that health care costs can be cut without lowering the quality of health care.

In the current UAW-FCA proposal the union has agreed to work with the automaker to “reduce costs” and to implement first-ever deductibles on tier one workers if they retain health care plans deemed “too generous” under Obama’s Affordable Care Act.

Beginning in 2008, employers will be subject to a “Cadillac Tax” on employee plans that exceed certain thresholds (estimated to be $10,200 per covered person and $27,500 per family). An employer will be assessed a tax equal to 40 percent of the so-called excess benefit for exceeding the limit.

The automakers gave the *Wall Street Journal* figures on how much they spend for health care. Ford Motor Co., General Motors Co. and Fiat Chrysler Automobiles will spend in excess of $2 billion in medical cost coverage for hourly workers in 2015, or at least $14,800 per active worker. To bring this cost below the Cadillac tax limit the average would have to be reduced by nearly a third.

The UAW web site states: “In the event that we cannot achieve cost savings to offset the tax, we have negotiated terms that will allow members to voluntarily remain in a plan subject to excise tax at the cost of $400 deductible for single coverage and $800 for family.”

Second tier workers already have inferior health coverage and high out-of-pocket expenses, bringing their costs below the tax threshold.

The cost shifting won’t stop there. Here are some of the health plan changes the auto companies can consider:

Top Strategies to Control Costs and Avoid the Excise Tax

• Using a “high-performance” provider network, which means doctors and hospitals that spend less money on care.

• Evaluating their health plan vendors (for example, companies that administer benefits, such as Blue Cross, or wellness programs).

• Setting a bargain-basement price limit on expensive procedures such as hip replacement. If the best doctor costs more, you pay the difference.

• Increasing premium contributions for dependent coverage.

• Making workers pay more if they don’t meet the standards for normal blood pressure, cholesterol, blood sugar, etc.

Private exchanges

Those measures would decrease employer health care budgets and may be used temporarily until another option is set up. There is one option that would be more like the VEBA, in terms of the auto companies setting a specific amount (defining their contribution) to pay for health care. This would be a private health care exchange, already used by Walgreens, Sears, IBM and other companies to cut health care costs for their employees. Business consulting firm Accenture expects enrollment in private exchanges to reach 40 million by 2018.

Private exchanges are operated online by business consultants, brokers or health insurance companies. The automakers would contract with the company that runs the exchange and decide which health plans will be offered to employees and the premium for each. The Detroit Three would allocate a specific amount for each employee to buy coverage.

Companies could contribute different amounts of money for different classifications of workers. Workers would go on the exchange and “shop for” a health plan to “meet their needs,” which really means a plan they can afford, no matter how poor it is. If the plan you select costs more than the company’s contribution, you pay the difference. Your other “choice” is to select a plan with fewer benefits or a very high deductible. The right of every worker to decent health care will be destroyed in the name of “consumerism”—you get what you can pay for.

Conclusion: Defend health care coverage

The UAW has declared that it pulled the proposed health care “co-op” off the table in the second deal it is pushing on Fiat Chrysler workers. The union hopes in this way to conceal from autoworkers its commitment to slash the cost of health care for the employers.

Workers should not be fooled by this version of “now you see it, now you don’t.” The UAW continues to discuss behind the scenes with the auto bosses, asking them what they want on health care, and promising to deliver it by hook or by crook.

The employer paid health care benefits, first won by autoworkers in the 1940s, were a tremendous gain not only for UAW members, but for the entire working class, in all industries and occupations.

The fact that the UAW is now working with the auto companies to destroy guaranteed benefits is a milestone on the way to the destruction of health benefits for the whole working class. Good health care is a social right that should not be available only to the elites.

Voting no on this agreement is only the first step in mounting a counteroffensive by the working class, against Wall Street, the giant corporations, and the unions that serve as their industrial police force.