



SHRM Workplace Law - Labor Relations

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GM-UAW Deal Shows Benefits' Central Role in Labor Negotiations

By Allen Smith

Labor negotiations increasingly zero in on benefits rather than pay, according to Thomas Wotring, a labor relations attorney with Sheppard Mullin in Washington, D.C., commenting on the deal struck between the United Auto Workers (UAW) and General Motors (GM).

The company's health should improve as a result of the agreement, which lets GM take \$51 billion in expenses for retiree health benefits expenses off its balance sheet. The union will shoulder retiree health benefits through a voluntary employees beneficiary association (VEBA), though GM will help prefund the VEBA.

In a Sept. 26, 2007, release following the agreement, GM noted that the agreement "includes a memorandum of understanding to establish an independent retiree health care trust, as well as other changes to the national agreement."

UAW President Ron Gettelfinger had played down the significance of negotiations over a VEBA. When he announced the strike on Sept. 24, 2007, in Detroit, he said that "this strike is not about the VEBA in any way, shape or form."

Yet, Gettelfinger added, "to this day I am puzzled why General Motors walked away from the VEBA in '05. We have not really gone out and talked about it publicly, but we proposed a VEBA to them that would have relieved them" of some of their postemployment benefits



Thomas Wotring

obligations. "Had the VEBA come about, that would even have been more security" for GM retirees.

Gettelfinger remarked later in the news conference that "the number one issue here is job security." But he added, "we are also fighting to preserve workers' benefits."

Tradeoffs

Management had a different view of its previous negotiations over the VEBA, which "was not a new subject between the union and management," according to Wotring in a Sept. 27 interview. "This was an idea that management had floated to the union—both GM and its competitors, Chrysler and Ford—some time ago. It was met with resistance from the union in the past."

Although Wotring was not involved in the negotiations, he said that he'd gathered that this time the UAW was more receptive. "It's my understanding that the UAW leadership said, 'we're interested in helping you clean up your balance sheet, make you competitive and also to secure benefits for our

retirees for the rest of our lives.' That's a tall order.

"The settlement does two things for General Motors. One, it allows them to take off their balance sheet the \$51 billion of liability," which automatically increases the value of the business.

"Secondly, GM no longer has an ongoing funding obligation for the retiree health benefits. It makes this contribution up front, or perhaps in pieces ... and it's finished."

Retiree health benefits are "a dying breed for a couple of reasons; certainly most importantly the expense," Wotring remarked.

In addition, retirees are living much longer, plus companies are "pushing back on that demand" now that people no longer typically stay with one company until retirement.

"Companies are saying, 'we're going to spend our money elsewhere rather than make a major commitment on the health side' and similarly on the pension side. They're saying the same thing. 'We want you to have portable pension benefits because you're probably not going to be here for your entire working life,' " Wotring observed.

GM agreed to increase pension benefits for retirees, he added, because the GM pension plan "was doing very well. So, their investment returns must have been pretty good the last few years for them to be able to do that.

'Home Run'

"This settlement is an example of what can be done when labor relations works the way it's supposed to work," Wotring remarked. "I recognize that there was a two-day strike and I recognize that cost GM some money." Nevertheless, he said "the working out of these issues, particularly the retiree health benefit issue, required tremendous cooperation on both sides of the bargaining table."

Wotring asserted that "the days are over when the UAW or the union was out to destroy General Motors and vice versa. General Motors as part of this package, as I understand it, agreed to increase investment in their domestic plants and

job security at their domestic plants, meaning union job security, and I think that was the tradeoff. I think it was labor relations really at its finest."

However, Carl Horowitz, director of the Organized Labor Accountability Project, criticized the deal.

"This is a great deal for GM," he said in a Sept. 27 statement. "They get to shed billions in obligations made to former workers. It is a great deal for the UAW. Gettelfinger and his cronies get to control billions in health care dollars. It is a lousy deal for retirees and future retirees who may lose some or all of their benefits."

In an Oct. 2 interview, Cynthia Marcotte Stamer, an attorney with Glast, Phillips & Murray PC in Dallas, called the deal "a home run" for GM. But she added that "if I was a retiree, I wouldn't necessarily be any more confident" about retiree medical benefits, as health care costs continue to rise and the UAW now faces the challenge of not defaulting on its new retiree health benefit obligations.

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