

GM benefit cut part of a trend

Expert: Trims in retiree health care exemplify loss of employee power

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By PAMELA YIP / The Dallas Morning News

General Motors' move Monday to trim its retirees' health benefits represents just another small step in the unwinding of America's post-World War II financial security system for workers.

But symbolically it's a huge leap for a country whose 20th century prosperity was built on manufacturing and the automobile.

"It's another really painful example of how workers have come to lose considerable power in the marketplace," said Robert Bruno, associate professor of labor and industrial relations at the University of Illinois at Chicago. "Power has really shifted significantly to the employer."

That shift is showing up, for example, in companies' elimination of traditional pension plans and cutbacks in health benefits, especially for retirees.

Today's workers need to face the changing reality of retirement – working longer, saving more and spending less – if they haven't already, experts said.

"We live in a society where there are no definites," said Steve Denson, adjunct professor of organizational behavior at Southern Methodist University's Cox School of Business. "You hate to scare people, but never assume what is an absolute truth today is an absolute truth tomorrow."

The surge in employee benefits occurred during and after World War II, when companies constrained by wage controls offered better benefits to attract workers.

Today, "the social compact that was common after World War II, where both organized labor and management could collectively negotiate what would be ever-increasing benefits for workers and productivity improvements for the employer," is pretty much dead, Mr. Bruno said.

Romance of autos

The GM retirees who now will be asked to pay more for their health care built the economy cars of the 1970s. Many of them are the children of the workers who built the huge sedans of the 1950s that launched America's love affair with the automobile.

"The auto industry has this romanticism about it," Mr. Bruno said. "It's one of the foundational industries that triggers production in other industries.

"The truth is, the industry in the U.S. is a shell of what it was."

Today's world of soaring oil prices and global competition – best exemplified by the growing popularity of Japanese hybrid automobiles – is also a world where Americans in all industries are being asked to take more care of themselves and to rely less on their employers and government to provide for them.

The trends are everywhere:

- Pension plans that provide payments for life are disappearing in favor of 401(k) plans, which require more employee funding and decision-making.

- Full health insurance is becoming less common. GM's tentative agreement with the UAW, its union, calls for it to only partially fund a new, independent, voluntary health benefit plan. GM expects to save \$1 billion a year if UAW workers, including those in Arlington, agree to the deal.

- Many of today's workers aren't counting on Social Security in retirement. The surge of aging baby boomers has changed the dynamic that allowed existing workers' output to fund current retirees' benefits. That demographic is at play in the case of GM, where every active worker supports 2 ½ retirees and their dependents.

GM's move also further demonstrates the fraying bonds between employee and employer.

"What this concessionary deal over health care points to is workers really have their backs to the wall," Mr. Bruno said. "The employer is going to look for significant cost savings where they can most easily find it."

That's very different from the paternalistic culture that existed at large companies in the late 1940s, through the 1950s and perhaps through the mid-1960s, Mr. Bruno said.

"By the end of the 1960s, and by the end of the 1970s, you certainly saw that being picked apart," he said. "By the 1980s, that compact is just about completely severed. For the last 10 years or more, union members have been struggling desperately to hold onto decades of middle-class pay and benefits, and those are being dramatically eroded."

This year, only 33 percent of companies with at least 200 employees offered retiree health benefits, down from 66 percent in 1988, according an annual survey by the Kaiser Family Foundation and Health Research and Educational Trust.

The rise of global competition is a major factor, experts said.

"What came first was an increasing disregard for the loyalty of employees by companies in the sense that as corporate leaders had to adapt their management styles to an increasingly global market, you have to make changes much more quickly, so you can't be one of these traditional, old-time bosses who walks through the plant and asks, 'How is little Johnny doing?' because you don't have time to know your employees," said Mr. Denson at SMU. "You just pay them enough to maintain their loyalty. It's becoming loyalty based on salary more than anything else."

It also works the other way.

Employees these days are more willing to change jobs to get the best deal. Such a dynamic makes it less important for companies to take care of their retirees in order to attract the best employees.

"It's been a buyer's market for good employees for a long time," Mr. Denson said. "That has had some impact on the fact that companies are more loyal to, 'What have you done for me lately?' If you haven't done for me lately, you're dead wood, because they have to maintain an active pace in a global marketplace."

Solutions

Experts said the GM situation should serve as another wake-up call for workers, especially those approaching retirement.

- Workers should realize they may need to save even more than they thought for retirement, financial planners said.

A 65-year-old couple retiring today should plan on spending \$190,000 on out-of-pocket medical costs over the next 15 to 20 years, according to Fidelity Investments.

That assumes no employer-provided retiree health coverage and life expectancies of 15 years for the husband and 20 years for the wife.

- As a result, many will choose to keep working in retirement.

"For many retirees on a fixed income, the unfortunate reality is they must often choose to do without or consider working part time for a company that offers health benefits," said Derrick Kinney, senior financial adviser at Ameriprise Financial Services in Arlington.

- More people will have to consider purchasing private "Medigap" insurance policies to cover some of the holes in the government's Medicare program, which also is facing shortfalls over the next few decades, said Deb Outlaw, a certified financial planner at Perryman Financial Advisory in Dallas.

- Finally, workers probably will have to change their spending habits in order to finance their health care.

"People adjust to it a little bit at a time, but it's an erosion of their income," Ms. Outlaw said. "It's not adjusting to it by saving up for it, but they have to adjust to it by the way they spend their money."

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