Communication Failures Scuttle Chances of Establishing Health Care Co-op for Detroit Auto Workers

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In the fall of 2015, the three major Detroit auto companies—General Motors (GM), Ford, and Fiat-Chrysler Automobiles (FCA)—appeared to be on the verge of adopting a radically different approach for providing health care coverage for their employees and retirees. With the companies' labor contracts expiring on September 14, the president of the United Auto Workers (UAW), the union representing hourly employees and retirees, proposed that the companies and union establish a joint health care purchasing co-op covering about one million hourly and salaried employees and retirees. The main advantage of a purchasing co-op is that by virtue of its greater number of participants, it can negotiate lower prices for services with health care providers than each company could negotiate separately.

Health care coverage for active hourly employees (about 150,000) and for salaried active employees (about 120,000) is self-funded and managed by each company. UAW retirees (about 750,000) receive coverage through a Voluntary Employees Beneficiary Association (VEBA).

The union was specifically interested in reducing the cost of active hourly employees' health care benefits by placing them in the same pool in the co-op with VEBA retirees and salaried employees. The union believed that this step was necessary to maintain the workers' excellent benefits coverage, as health care costs continue to rise.

Response to the Co-op Idea

According to interviews in the media, the companies reacted favorably to the co-op proposal in general terms, as they were pleased to see the UAW address a potentially contentious issue by exploring new ideas. Health care consultants quoted in the newspapers believed the idea had merit, and an executive at one large hospital network expressed interest in contracting with the co-op to provide health care services to its members.

The only group yet to be heard from was the hourly employees who have the right to accept or reject proposed compensation and benefit packages negotiated between the union and the company. Presumably, the employees would be supportive, because the co-op was the union's idea and involved no loss of benefits. It appeared as though the union had a good chance of establishing a co-op, but for reasons explained later, failed to make it happen.

Proposed Co-op

As negotiations with the companies began, the union did not provide enough information about its proposed co-op to enable its members and the media to get a clear and complete picture of the co-op's purpose, structure, and operations. Dissident elements within the union and anti-union organizations filled the gap with negative comments and misinformation about the co-op on the Internet. A major Detroit newspaper published an article about it, but the organization described a Taft-Hartley Multi-Employer Welfare Plan, was not the type the union had in mind. With only limited and inaccurate information about the co-op to consider, the members had difficulty seeing how it could help to improve their health care benefits.

The following working description of the co-op is provided, based on the limited information given by the union and descriptions of similar co-ops, as summarized in Exhibit A.

The health care purchasing co-op would probably be a nonprofit organization that is owned and directed by the companies and union. Its primary purpose would be to negotiate high quality, cost-saving service contracts directly with doctors and hospitals on behalf of the companies and the VEBA. It also would act as a forum to share information, data, knowledge, and expertise to improve the delivery and value of health benefits.

The co-op would operate as an intermediary between the providers and third-party administrators of the companies and the VEBA

Exhibit A: Working Description of Proposed Co-op

- Organizations in co-op: General Motors, Ford, Fiat-Chrysler, and UAW Retiree Health Care VEBA
- Serviced population: About one million active and retired employees
- Primary purpose: Negotiate service contracts with doctors and hospitals
- Administrative role: Re-price claims from providers for payment by companies and VEBA
- Advantages: Group purchasing power and administrative economies of scale
- Institutional control: UAW and companies

Exhibit B: Facts on the VEBA (2014)

- Population: General Motors, Ford, and Fiat-Chrysler hourly retirees and surviving spouses
- Purpose: provide health care benefits
- Number of participants: 750,000
- Total assets: $59.9 billion
- Annual spend: $4.2 billion
- Calls handled: 294,000
- Institutional control: 11 trustees, 6 independent & 5 UAW-appointed

Source: UAW Retiree Medical Benefits Trust. 2014 Annual Update

to re-price claims, according to its contracts with providers. Funds to operate it would be based on a percentage of the savings generated by re-pricing claims. Employees and retirees would remain covered by the health care plans sponsored by their employers and the VEBA.

The co-op's operations would be overseen by a board composed of representatives of the companies and the union. Health care plan executives, experts, and administrative staff would be hired to form and operate it.

VEBA

In promoting the idea to its members, UAW leaders cited the VEBA as a success story for pooling smaller employee groups into a larger one to reduce health care costs. The reference, however, created confusion for employees as the tendency was to equate the two organizations, which are substantially different in purpose, structure, and operations.

One basic factor working against references to the VEBA at FCA was that the level of knowledge of the VEBA among its workers was not ideal. Workers hired after September 15, 2007 were not eligible for the VEBA and had no practical need to understand it. In 2015, 43 percent of the FCA workforce was in this new hire group. This would be important since the UAW tried to sell the co-op idea first to FCA workers.

The VEBA began operations in 2010, as the largest non-governmental purchaser of health care services for retirees in the country. It operates as a trust governed by UAW-appointed and independent officials. It was initially funded with tens of billions of dollars in contributions from the companies. In 2014, it held assets of about $59.9 billion. It is separate from the companies and the union, but is heavily influenced by union officials. Exhibit B contains further details on the VEBA.

Prior to 2010, each of the companies was responsible for managing and funding the health care benefits of their hourly retirees. The move to the VEBA was primarily done for two reasons. It allowed the companies to transfer the huge financial liability for providing future retiree benefits from their books to the VEBA, which improved their financial standing with investors and lenders. It also had the advantage of providing retirees with greater stability in receiving health care coverage, should the companies fall on hard times and be unable to fund these benefits.

Despite being described as a success story, employees were aware of serious negative aspects about the VEBA:

- Upon launch, GM retirees lost their dental, vision, and hearing benefits due to inadequate funding.
- In 2011, the GM account in the VEBA had significant funding problems that limited its ability to maintain existing benefit levels. Because GM had no obligations to fund the plan after making its initial contribution, the union had to amend its labor contract with active employees to allow for transfer to the VEBA of 10 percent of the funds allocated to active GM employees' profit-sharing plan.
- Retirees in the VEBA pay on average 11 percent out-of-pocket for health care coverage, compared to six percent for active employees.

Thus, not only was there confusion over basic organizational aspects of the co-op and the VEBA, there were negative experiences with the VEBA that likely affected the employees' opinion of the co-op. Relating the two organizations proved to be a questionable strategy to sell the co-op to UAW members, as the union was late in realizing.

Worker Priorities

Every four years, the UAW holds a special convention on collective bargaining to give rank-and-file members a forum to provide input into the union's negotiating agenda for upcoming talks with the companies over a new labor contract. The general theme of the 2015 conference was "Bridging the Gap."

According to media reports and the outcome of the negotiations, the top priority item in 2015 was the elimination of the two-tiered wage scale established in 2007. Beginning in 2007, new employees have been hired into the lower Tier II and have been paid substantially below veteran workers in Tier I. The cost-cutting move helped the companies survive during the recent financial crisis that almost put them out of business. Workers also wanted to see a continuation of the limits placed on the number of Tier II employees in the workforce. Restoration of general base wage increases for veteran workers was also a "must-have" in the new contract.

Although important, health care issues had a lower priority than wage issues, and the co-op was not on the minds of most workers. Because the companies were enjoying record profits, workers had no reason to expect takeaways from their health care benefits, so there was no pressing need for a radically new cost saving tool, such as a co-op. In addition, in the prior contract negotiations of 2011, when the companies were less prosperous, health care benefits were improved.

2015 Negotiations

The process of negotiating new contracts with the three auto companies typically has been done sequentially, although in recent years bargaining has been simultaneous. In 2015, the UAW selected FCA to be the target or lead company to negotiate with first. It was the weakest financially of the three companies. The union knew that if FCA followed the lead of GM or Ford, it probably would receive pressure from FCA workers to match pay and benefit improvements that were too costly and make it difficult to reach a deal with FCA.

FCA and the UAW reached an agreement without a work stoppage, and it was clear from the documents provided to the members that the co-op was a major issue in the negotiations. Members were asked to vote "yes" or "no" on the new contract based on the information in two documents: a one-page letter signed by the union president and vice president that announced and provided background information about the major changes, and an accompanying 16-page highlights document that provided details about the changes.

Cover Letter and Contract Highlights Document

In the letter to the FCA membership, the co-op and health care received more coverage than top priority wage improvements that may have caused some members to question whether their union leaders understood what their priorities were for desired changes in the new agreement.

The cover letter said this about the co-op:

> Health care costs are rising. It's a problem for the company, it's a problem for us, and it's a problem for our nation. Knowing that there is no realistic way for us to protect our quality health care and cut costs, we proposed the trailblazing idea to create a health care cooperative (co-op) to provide medical benefits for active employees in the same way that we had the foresight to establish a Voluntary Employee Beneficiary Association (VEBA) in 2007 to protect health care for UAW retirees.

The highlights document described the health care changes as follows:

> In recognizing that stable and secure benefits are vital to the economic security of every family, the importance of improving the quality and lowering the cost of negotiated health care benefits is critical. In order to explore innovative ways to improve the delivery of these benefits and continue to maintain and improve quality, a Health Care Co-op will be established.
>
> The Co-op will focus on improving health care benefits in a manner that increases quality, lowers cost, produces less waste, and provides better patient care and outcomes.
>
> Programs that may be implemented through the co-op may be educational or may create incentives to use particular providers or sites of care, prescription drugs, or other health care benefits in a way that does not diminish overall benefit levels or impose additional costs or any other barriers to clinically-appropriate care.
>
> Members will always have an option to maintain current benefit levels by choosing to have care delivered within a network or Center of Excellence.[1]

Rejection

FCA hourly employees rejected the proposed agreement by a margin of 65–35 percent. A simple majority is necessary to approve one.

Rejection of a proposed national agreement is a rare occurrence in the UAW's collective bargaining history with the auto companies. It had been 33 years since FCA (formerly

Chrysler Corporation) members rejected a national agreement and 39 years since UAW members rejected a proposed agreement with the lead company. It is considered to be an embarrassing event in the world of union-management relations when an agreement is rejected. It usually indicates that union negotiators were out of touch with worker priorities or that the workers believed that the union was unable to obtain an equitable share of company profits. In this case, both scenarios were at play.

Reasons for the Rejection

The primary reason given for the contract rejection is that it failed to bring the wages of the Tier II workers up to the scale of veteran workers in Tier I. In addition, there was no limit on the number of Tier II workers that the company could employ. Forty-three percent of the current FCA workforce was in Tier II. Members were led by the union to believe that a previous 25 percent headcount limit on Tier II workers would be restored, but the proposed agreement was silent on the subject.

Other important reasons for rejection were the lack of specificity about where vehicles would be produced; no statement was made that health care benefits would remain unchanged; and there was a lack of key information about the co-op. For example, the cover letter and highlights document did not say how it would be funded, who would manage it, and how it would interact with the VEBA. Because the rejection was seen in part due to an ineffective communications campaign, the union hired a high-powered New York public relations firm to help inform members as negotiations progressed.

Final Agreement

After the employee rejection, the parties went back to the bargaining table and addressed the wage parity issue, the limit on the number of Tier II employees, and product allocation issues to the members' satisfaction, as 75 percent approved the revised agreement. The co-op was not part of the agreement, but the union was not about to completely drop the subject. In its cover letter to members about the revised agreement, it stated this about the co-op:

> Another big challenge was health care. Our benefits are among the best in the country but they carry a high price. Today, our health care costs about $8 an hour and by 2019 we project it will reach $13–$14 an hour. The company's solution is for our members to pay more. Over the years we have protected you from premium sharing and have been successful in this set of bargaining, too. But, if we are going to maintain these benefits, we must be proactive and not wait for the problem to get worse. We must work together and figure out a solution that takes advantage of our collective knowledge and experience. This was the intention of the co-op. We never intended to create a VEBA or Taft-Hartley. Although we remain committed to finding smart solutions to our health care problems, we listened to your concerns. We will tackle this issue by asking the companies to share data and support health care studies.[2]

At this point, many UAW members were probably asking themselves why the union leaders seemed so fixated on the co-op concept, because they did not share their leaders' enthusiasm.

Failure to Educate

In an interview following the negotiations with FCA, the UAW president took responsibility for the rejection of the co-op: "I was a little naïve. I thought that everyone understood it. It was my fault. I should have educated people more on it."[3] Why the union thought members understood co-ops is hard to fathom, because in Michigan, where most of the auto workers live, very few people have had the purchasing co-op experience or know someone who has. There appears to be only one in the state, and it is not well known.

Whether members would have supported the concept had they fully understood it is an open question. What is arguably clear is that the members did not have enough faith in their union to enable them to agree a co-op without fully understanding it.

Co-op Drops Off the Radar

To address the co-op information gap in negotiations with GM, the union prepared a two-page "talking points" primer on the co-op to be distributed to members by the local union offices and to assist local officials in answering questions. The first two talking points were these: "It (the co-op) is Not a Taft-Hartley plan" and "It is Not a VEBA or VEBA type plan."[4]

Not a word was said about co-ops in media reports on the negotiations with GM and Ford and in their new contracts. If the union believed a co-op was necessary to maintain current health care benefit levels, the new contracts indicated the concern was unwarranted. In general, coverages were improved and the generous health care benefits of veteran employees were extended to lower tier employees to provide substantially better coverage.

In theory, the companies should have been receptive to the co-op idea because pooling active employees with the much larger VEBA population would have resulted in lower health care costs for the actives. Apparently the prospect would not generate enough savings for the companies to agree to the co-op idea and risk having a proposed agreement, with the co-op in it, rejected by employees.

It is also possible that the companies believed that they had negotiated similar, or perhaps better, contracts with health care providers than managers at the VEBA. The union's interest in having a co-op, in part, may have reflected a need to verify that the VEBA had negotiated competitive provider contracts. Other major hurdles for the companies were the co-mingling of UAW represented hourly employees and non-union salaried employees in the same plan, and the ability of the UAW and the three companies to govern the co-op without conflict.

Communication Improvements

The co-op concept has enough merit to receive future consideration. Before re-introducing the idea, however, the UAW should develop communication programs to help its members understand and buy into the concept.

Suggestions for improving member knowledge are as follows:

- Post a white paper on co-ops on the UAW Web site and send a letter to members' homes with the same content. Workers need to understand how benefit coverages and delivery systems will change with a co-op, as well as why such a radical approach is necessary to reduce health care costs.
- Refer to the co-op by its specific name, such as a Health Care Purchasing Cooperative, to avoid confusion with other co-ops, such as those directed to consumers rather than businesses.
- Avoid references to the VEBA, because the co-op and VEBA are different types of organizations and because negative experiences with the VEBA may color members' opinions of the co-op.
- Avoid the use of technical terms in communications, such as "Taft-Hartley" and "actuarial value," which are unfamiliar to most members.

HR professionals who wish to increase their knowledge about co-ops are referred to one successful plan, The Alliance, a Wisconsin-based nonprofit cooperative of more than 240 self-funded employers and insurance trusts covering more than 100,000 individuals.[5] Another source of information is The National Business Coalition on Health. It is a national, nonprofit, membership organization of purchaser-led health care coalitions.[6]

Notes

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3. Martinez, Michael. 2015. "No Health Care Co-op in New FCA Deal." *The Detroit News*. *http://www.detroitnews.com/story/business/autos/chrysler/2015/10/09/healthcare-pool-table/73685630/,* last accessed Jan. 9, 2016.
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5. *http://www.the-alliance.org/,* last accessed Jan. 9, 2016.
6. *https://www.nbch.org/,* last accessed Jan. 9, 2016.

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