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## HEALTH

# GM's Liabilities For Retiree Health Are Over \$60 Billion

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**General Motors** Corp., the nation's largest private purchaser of health care, will soon report that its future health-care liabilities for retirees have surpassed \$60 billion -- even after recent Medicare legislation that has reduced retiree health-care obligations for many companies.

John Devine, GM's vice chairman and chief financial officer, said the company's future retiree health-care obligations rose by a greater percentage in 2003 than in 2002, and the liabilities will continue to swell from the 2002 level of \$57.2 billion, despite the fact that GM has curbed the rate of its health-cost inflation slightly in recent years.


"When you see our 10-K, our health liability will have jumped from 2002 to 2003," Mr. Devine said in an interview at the Geneva Motor Show last week, referring to the annual report GM will file with the Securities and Exchange Commission.

Health care is one of the single biggest costs GM faces each year -- representing about \$1,400 per vehicle produced. The company's health plans cover 1.21 million employees, retirees and their dependents. For 2003, the company reported that it spent \$4.8 billion, or about \$3,966 a person, for health-care benefits. Those cash outlays are expected to rise to about \$5.1 billion for 2004.

For years, GM has complained that U.S. companies' health-care burden places them on unequal footing with foreign competitors. Although Mr. Devine didn't call for nationalizing health care, he and other GM executives have said U.S. manufacturers need some help from the federal government to solve their health-care cost problem.

### GM CHECKUP

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Key to addressing the problem is the issue of future-retiree obligations. Mr. Devine said that a number of factors are driving up these costs. One is that GM is using a lower discount rate in its latest 10-K to calculate the present value of its future retiree health-care obligations, reflecting today's lower interest-rate environment. The lower the assumed discount rate, the greater the assumed present value of the future retiree health-care expenditures. When rates rise, the effect is to reduce the size of the reported retiree health-care liability. GM officials aren't disclosing details of how much the discount-rate change will affect retiree health-care liabilities in advance of the SEC filing.

Without being specific, Mr. Devine said GM is getting "some help from the Medicare legislation." The auto maker's 10-K will reflect a one-time reduction in the size of its future retiree health-care liabilities to recognize the value of Medicare subsidies related to a new Medicare prescription-drug program, Mr. Devine said.

"We are going to take it right away," Mr. Devine said, adding that the impact would be reflected in 2003-2004 expense as a "change in our liability, and we'll lay that out in our 10-K." He added, "It's an improvement, but our liabilities went up year-to-year. This does not solve health-care issues for GM."

GM's future retiree health-care liability "is still up substantially. It's over \$60 billion," Mr. Devine said. The Medicare Act "is a good start. It's welcome, but it's limited," Mr. Devine said. "The debate on Medicare legislation is not over. It's going to continue for the next several months."

"I don't think it's going to be productive to have this debate during the upcoming election because I think it's polarizing," he said. "But whoever is in the White House a year from now, whether it's George Bush or John Kerry, is going to need to address health-care issues and costs. We certainly have to address this issue at GM. It's at the top of our hit list."

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