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Chrysler retirees lose life insurance

Eric Morath / The Detroit News

Chrysler LLC's white-collar retirees are losing free life insurance benefits but are eligible for a one-time pension boost of up to \$4,000, according to a letter retirees should receive this week.

Previously retirees were covered by a life insurance policy at no charge, with a death benefit equal to their last year of pay, for those who retired before 2003, or \$50,000 for those who retired after that.

Chrysler is allowing affected retirees a one-time opportunity to buy into a voluntary plan through MetLife at a reduced, group rate.

Chrysler is the first of Detroit's Big Three automakers to cut the benefit. Eliminating life insurance is the latest in a series of cost-cutting moves for Chrysler under the private ownership of Cerberus Capital Management LP.

The carmaker significantly cut production in the first three months of this year, and has scaled back discounts for friends and family of Chrysler workers.

"We made this choice (to cut life insurance) after looking at the competitive landscape," Thomas Hadrych, Chrysler's vice president of compensation, benefits and corporate services, said in an interview Monday.

Hadrych said about two-thirds of America's 1,000 largest companies don't offer life insurance to retirees. Union-represented workers and retirees, as well as Chrysler's current professional and managerial workers, will continue to get company-paid insurance. The retiree cut is effective June 1.

Ending the benefit shows that Chrysler is looking at every option to cut costs, said Jim McTevia, who heads McTevia & Associates, a turnaround firm in Bingham Farms. He said retirees often are the "innocent victims" of cost-cutting companies, since decisions

affecting former employees have no effect on operations.

"To make Chrysler profitable, Cerberus either needs to cut costs or increase revenue, and in this market it's unlikely they'll increase revenue," McTevia said. "It's clear Cerberus is running the business differently than the previous management."

Chrysler has about 14,000 white-collar retirees. Now, regardless of retirement date, the benefit is canceled.

Chrysler wouldn't say how much ending the insurance benefit will save the company.

The premiums for white-collar retirees likely cost Chrysler several millions of dollars per year -- especially since older retirees are more likely to be paid the benefit than younger, current workers, said Marc Wise, an employee benefits attorney and partner at Southfield-based law firm Maddin Hauser.

On one hand, retirees' families are less likely to need the life insurance payout to support a family or pay off a mortgage, Wise said. On the other, the cost of a 65-year old obtaining even a 20-year term plan is steep -- \$1,600 a year or more, he said.

"I don't think it will dramatically change how retirees live their lives," Wise said. "But if they feel they need the coverage, I'd urge them to consider buying into the group plan."

A boost in the pension payout, however is likely welcomed by retirees, Wise said.

White-collar retirees will receive from \$1,000 to \$4,000, depending on their years of service and years since retirement. They may choose to take the payment as a one-time lump sum, roll it into an Individual Retirement Account, or have it paid as part of their monthly benefit.

The increased pension payout, set to take effect June 1, is intended to keep white-collar benefits in step with those for United Auto Workers union retirees. UAW retirees are scheduled to receive a bump of up to \$2,800 in their payouts over four years under the contract Chrysler negotiation last year with the UAW.

Retirees did not receive a pension increase last year.

"We are pleased to offer the increased benefit," Hadrych said. "Obviously a retiree could use the payment to buy life insurance, if they choose, but they are not related."

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