The Detroit News

Wednesday February 13, 2008 detnews.com State Edition

GM sweetens buyout deals

Workers can roll payouts into tax-deferred funds

Sharon Terlep

General Motors Corp., coming off a third-straight money-losing year, thinks it has a hook that will help coax thousands of highly paid veteran factory workers into retirement even after they turned down similar offers two years ago.

In a first-of-its-kind move for the auto industry, GM will offer retirement incentives with the option of having cash payouts rolled into a retirement or 401(k) account, which could delay tax charges and make the offers potentially more valuable than those being rolled out by Ford Motor Co.

GM Chief Financial Officer Fritz Henderson said Tuesday the plan is GM's best bet for saving money between now and the end of the decade, when the United Auto Workers union is slated to take more than $50 billion in retiree health costs from GM.

He did not say what the company will do if it fails to get enough people to sign up for the offers.

"We've just got to be ready based upon what the take-rates are," Henderson said.

About 46,000 retirement-ready workers will get richer offers than GM made in 2006, with production employees eligible for a cash payment of $45,000 and skilled trades workers eligible for $62,500.

All of GM's 74,000 hourly workers will receive some type of buyout or retirement incentive. About 34,000 workers accepted offers to leave the company in 2006. GM did not say how many workers it hopes will take the deal this time. But UAW President Ron Gettelfinger, in an interview Tuesday with Paul W. Smith on WJR Radio, said he thinks GM is targeting less than 20,000 workers.

Veteran employees need to go to make way for lesser-paid workers GM can hire as part of last year's deal with the UAW.

GM knew it needed to make the offers more attractive, especially after Ford upped its cash incentives to get more workers to retire.

News of the buyouts came as GM reported a $1.5 billion pretax loss in North America for the fourth-quarter last year, contributing to a record-breaking $38.7 billion loss for the year for GM overall.

Almost all of the full-year loss was from a massive tax write-down the automaker took last fall, but even without the accounting charge, GM lost $23 million, compared to an adjusted profit of $2.2 billion in 2006. GM's net loss in 2006 was $2 billion.

For the fourth-quarter, GM posted a net loss of $722 million compared with net income of $950 million in 2006.

"We need to look at '08 with a sober view of the word and go at our costs the best we can," Henderson said. "We're not conceding '08. We think we can improve."

GM's ability to turn around its beleaguered North American division by the end of the decade -- when the company expects to unload retiree health care liabilities to the union through a company-funded trust -- hinges largely on moving out senior workers.

Once veteran employees are gone, GM can replace around 16,000 of them with new hires who would make about half the current $28-an-hour wage and receive less benefits. The buyouts and two-tier wage structure are part of GM's new UAW contract.

GM will give workers the option of getting the cash in a lump-sum payment, as a rollover to a 401(k) plan or IRA, as a monthly annuity, or as a combination of a lump-sum payment and a retirement contribution.

"The tax savings and potential for long-term growth makes this buyout even more attractive than previous offers," said analyst David Kudla of Mainstay Capital Management in Grand Blanc. "It's a great offer."

Employees who aren't yet eligible for retirement, few of whom traditionally opt for a buyout because it typically means forgoing retirement benefits, will receive buyout offers of up to $140,000 to leave the company.

GM initially expected to offer buyout packages similar to those made available in 2006, when retirement-ready workers could take $35,000 to leave the company. But Ford recently sweetened its deals, prompting GM to do the same. Ford is offering skilled trades workers $70,000 and production employees $35,000.

A first round of incentives at GM, extended last month to 5,200 workers, mirrored the 2006 deals almost exactly. GM will extend the richer deals to workers who received the earlier offers.

The new offers will be rolled out in the next few weeks. GM expects to complete the program by July 1 and start benefiting from the savings during the second half of '08.

Moving out the older workers is a central part of GM's strategy to restore its struggling North American region to profitability. Cost reductions achieved through last year's labor deal has GM on track to save an additional $4 billion to $5 billion annually once the retiree health fund kicks in, but until then, GM must work to stem its losses.

GM's home region was the only one that lost money last year, which the automaker attributed to the weak economy and high commodity prices.

GM's $1.5 billion full-year pretax loss in North America was virtually unchanged from 2006 when it lost $1.6 billion. The division reported a pretax loss of $1.1 billion in the fourth quarter, compared with a $129 million loss a year ago.

It's a foreboding sign given all GM has done to bolster revenue and cut costs in the struggling but critical region. The automaker is commanding higher sticker prices on average for its vehicles and making fewer low-profit sales to daily rental firms. At the same time, painful production cuts have brought the automaker's vehicle supply more in line with reduced demand.

"GM isn't standing idle," Bear Stearns analyst Peter Nesvold wrote in a research note. "However, we believe something's happening that continues to erode GM's earnings power faster than the restructurings can offset."

Nesvold noted that GM has managed to cut $9 billion in structural costs since 2005, but pretax income in North America has improved only about $6 billion since then -- even as profitable new full-size pickups and crossover SUVs hit the market

GM's Henderson said he is not writing off the chances of a profit this year or next. In addition to savings from the buyouts, he said, GM is gearing up to negotiate a cost-cutting labor deal this year with the Canadian Auto Workers union. Also, U.S. sales have the potential to be stronger than last year, when GM deeply reduced fleet sales. And continuing growth in emerging markets will help bolster the bottom line worldwide, he said.

"Taking full advantage of the UAW contract is important," Henderson said. "Beyond that, we have some drivers that can send us the right way."

GM stock closed down 52 cents Tuesday at $26.60.