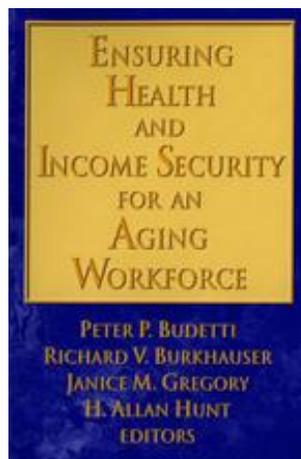

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Commentary [on Charting the Landscape]

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Commentary

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Well, good morning, and congratulations on making it here. I'm Wally Maher. I'm with DaimlerChrysler Corporation and I want to first really congratulate the Academy on the initiative it's taken to tackle this problem. It's a very real problem. I've been asked to comment on the various background papers from the perspective of an employer. As the background papers and the summary that you just heard reflect, for many employers, including my company, there is considerable linkage between the public and private plans covering health care, pension, and disability benefits. And for this reason, a major benefit of the Academy effort will be to help assure that these linkages are understood by policymakers, lest anyone believe that you can cut back on one without impacting the other.

As I begin this morning, I'm sure that—and if it isn't, it should be clear to all of you—that my company and my industry is not your typical U.S. employer relative to the types of benefit plans that we offer. First, the great majority of our employees are represented by a union, the UAW, and notwithstanding the fine and substantial efforts of the organizing staffs of the AFL-CIO member unions, this is not true of most U.S. employers. Second—and not totally divorced from the first—is the fact that we provide comprehensive benefits for our employees and retirees that relate to the subject of this conference: health care, pension, disability, and life insurance.

Third, my company and our industry—and this may come as a surprise to some of you—is in the relatively early stage of a massive number of retirements and related hiring, based largely on the fact that we had a large hiring binge in the mid to late 1960s. So we at my company, and I'm fairly sure that this is true of GM and Ford, are actually witnessing the start of a reduction in the average age of our workforce, and I'm sure that this phenomenon is being experienced by some of the larger auto supply firms with similar benefit structures. Finally, it is very clear that there are many companies with an aging workforce that do not provide the health and disability benefits that we do, and it is

here where the risks that the Academy is studying can be most profound.

The reason I wanted to point these facts out is that I believe they tend to validate the data that was portrayed particularly in the paper by Katherine Swartz, which shows that there is progressively less insurance coverage among the various baby-boomer cohorts that are moving through the system and approaching retirement age. I believe that this could reflect both the then-current trend towards less unionization of workplaces and the shift in U.S. employment away from traditional manufacturing jobs.

Now, despite what I said about the fact that we have at my company an average age that is starting to decline, we still have many older employees, and I do want to discuss the major challenges that we face to assure that these workers continue to have productive jobs and that we're able to reduce the cost associated with having disabled workers. I also wish to discuss the fact that while the benefit programs we have in place are not representative of the employer population generally, there are indeed many employers with similar plans, and these employee protections could well be jeopardized by ill-conceived public policies.

Let me first discuss the major challenges that my company is confronting as we face the reality of an older workforce. First, it has become very clear that there is a priority in designing jobs in a way to reduce the risk of injury. It has been established in our industry that standardized work practices are critical to injury prevention. Second is training: you can have all the standardized work practices in the world, but unless workers are adequately trained to perform the job as designed, you're not going to avoid the risk of injury. Third, we have to have adequate supervision. Finally, in addition to these core requirements, we've also found that it's been quite helpful to have available for employees wellness programs and other information so that they understand the value of healthy lifestyles.

Now, if all that fails, another challenge is to have the resources at hand to retrain workers to be able to perform jobs that are compatible with their physical limitations. And since I brought up the subject of retraining, I should point out that this is an issue which I personally believe as a country we would be well served to focus more attention on, specifically the need to have adequate programs in place to assist

workers who are unable to perform the jobs that they currently have and who have lost their jobs as a result. Now this could be the result of disability or it could also be the result of the continued globalization of the economy. In either case, just as my company has an interest in having all of our employees working productively, the country has a similar interest in having every American living as productive a life as possible. The private sector has lots of experience in, and understands the value of, retraining, and we would hope that more and more of that filters into the public sector, because retraining truly can open new horizons for workers.

Now what about some of the other concerns that I mentioned? First—as I mentioned earlier and as you just heard in the summary and in the background papers—there are many employers that don't provide the level of benefits that we do, and my concern is that despite the continued and sustained level of prosperity that we've enjoyed here in the United States, there are many employers that still do not provide even a basic level of health benefits for their employees, not to mention short- and long-term disability benefits or a pension plan with a PTD component.

What are some of the reasons for this? First, of course, they're not required to by law. Second, they may not be able to afford it. And third, they may not have to in order to attract employees. And this is particularly true for lower-paid and lower-skilled jobs, and I frankly don't see this changing. One reason it's unlikely to change is the ever-increasing cost of health benefits. In this regard, it's been pretty evident that health benefits are particularly cost-sensitive, and that's why most employees today find themselves in some form of managed-care plan and why many employers offer only HMOs—because that's all they can afford.

So a concern I have is what do you think will happen if, as a result of increased regulations, health premiums rise even faster? Or, more daunting, if the eligibility age for Medicare is increased to 67 or 70? In my judgment, you can bet that fewer employers will offer health benefits. If the Medicare eligibility age is increased, the cost of health benefits for workers who elect to continue working until 67 or 70 will rise sharply, and the incidence of employer-provided retiree health benefits will continue to plummet. The same will be true for lesser provided benefits like disability plans.

I continue to wince every time I hear the proposal to increase the Medicare eligibility age to 67 described as one merely intended to bring Medicare eligibility in sync with Social Security. I mean, while numerically this is correct, there is one fundamental, compelling difference which argues against using this analogy. It's the fact that today, given the existing, steadily increasing eligibility age for full Social Security benefits, if any American chooses to remain in the workforce beyond age 65, so as not to experience a reduction in Social Security benefits, that American is assured at the very least of getting cash wages from an employer equal to the minimum wage, and in most cases substantially more. However, that same employee has zero assurance of getting any health benefits from the employer. And in lieu of that, if they tread out into the private insurance market to buy a policy for the employee and a spouse at age 65 or 66, you can imagine the portion of the person's take home pay that that premium would represent. So that's the reason that I tend to wince about that when I hear that analogy used.

Now clearly, is the Medicare program a perfect program? No. Is it in need of reform? Yes. Does it have to more resemble the type of plans that employees have available today, including structures to help retard cost increases? Yes. Do benefits have to be modernized? Yes. But as we embrace and try to craft those reform strategies, we have to endeavor not to adopt reforms that will exacerbate the problems of the uninsured.

I would be remiss if I didn't point out that the biggest challenge we confront is to assure that any actions we take to address the problems of an aging society are consistent with maintaining a strong economy. As the background papers made clear, as the U.S. unemployment rate increases, the incidence of disability increases geometrically. Further, having a strong economy and the resulting surpluses could eliminate at least one of the barriers for improving many social programs designed to assist the elderly, the ill and disabled. So there's a compelling reason to keep U.S. employers competitive in the global economy and to keep good paying jobs here in the United States, both of which are essential ingredients for a strong economy.

I bring this up because it should be recognized that if we, in an effort to moderate the cost of public safety-net programs, shift costs to employers or otherwise pass laws which have the same effect and

unreasonably increase labor costs, there will be two inevitable results, neither of which is good for workers or the economy. While employers like us and those in our industry are unlikely to cancel our benefit plans, there could be some impact on overall compensation plans; or worse, if we become less competitive, employment opportunities could stall. Again, neither of those is good news. Worse, however, is that many employers could just drop or substantially diminish their benefit plans, and new employers would be less likely to implement them in the first place. Again, neither is good news for workers.

As the cost of health and disability benefits continues to increase, in part due to an older workforce, it's important to recognize that employers do need some flexibility to manage their health and disability benefit programs, including the cost of workers' compensation, to keep them more affordable. We can't forget the fact that, under the current laws of this country, the provision of benefit programs, including health and disability benefits, is voluntary, and if employers drop their coverage, the cost shifting that results from a diminishing number of employers providing benefits will continue to grow.

In conclusion, I believe it is possible for employers to maintain programs which are sensitive to the needs of an older workforce and to act reasonably to keep the costs of these programs in line. I also believe that as a nation we are prosperous enough to have safety-net programs to meet the needs of an aging society. I hope that we are able to pursue both paths in a way that continues to provide a strong economy and good job opportunities here in the United States.

Thank you.