

**UAW Retiree Medical Benefits Trust**  
**P.O. Box 14309**  
**Detroit, MI 48214**

Note: This letter is an information update only. No changes have been implemented in your medical benefits and there is nothing you need to do. Your benefits will continue to be administered in the same manner as they are currently administered. During the benefit transition to the new VEBA Trust in the late fall of 2009, you will receive information about new ID cards and any other administrative changes.

Dear UAW Retiree or Surviving Spouse:

We are writing on behalf of the official Committee that administers the Voluntary Employees Beneficiary Association (VEBA) Trust Fund. As you know, the VEBA Trust will become responsible for providing retiree medical benefits to UAW retirees of GM, Ford and Chrysler beginning on January 1, 2010. You will receive an update letter from the Committee each year to keep you informed about the status of the VEBA Trust, its benefit costs, investment results, and future funding outlook.

Once the VEBA Trust is in full operation (starting on January 1, 2010), it will separately track the VEBA assets and liabilities for each employer group (GM, Ford and Chrysler). For that reason, in the future separate letters will be sent to each retiree group. However, this letter involves issues that are the same for all three groups.

## **Background**

Since this is the first of our annual letters, we thought it would be useful to provide some background information on how the VEBA was formed before we update you on the VEBA Trust itself and the automakers' current financial issues.

In the spring of last year, you received information about the proposed court settlement involving your retiree medical benefits. That proposed settlement was supported by the UAW and by attorneys (called "Class Counsel") approved by the court to represent the interests of retirees. The proposal was consistent with agreements reached during the fall of 2007 between the companies and the UAW. Last summer, the court held several hearings and approved the Settlement establishing the VEBA Trust.

An 11-member committee, consisting of five members appointed by the UAW and six independent members approved by the court, administers the VEBA Trust. You received information about the six independent members last spring. They are experts in the fields of health care delivery, investments, and employee benefits. Each member of the Committee is dedicated to care for the VEBA Trust's assets in order to keep your retiree health benefits secure.

Let us be clear: our Trustee Committee's sole mission is to use the VEBA Trust assets to provide you with secure and continual health care benefits starting on January 1, 2010. Each and every member of the Committee is dedicated to doing everything within our power to provide you and your family with the very best medical benefits possible.

## **Current Developments with the Companies**

Under the Settlement, each of the three companies must make a series of contributions to the VEBA Trust. The amount and timing of these contributions is set out in the Settlement Agreement. It was described in the material you received last spring and was approved by the court last summer.

Of course, the news has been full of reports about the financial difficulties faced by the companies. The current situation is caused mostly by the severe economic recession which suddenly and dramatically reduced car sales in the second half of 2008. After several weeks of activity in Congress, the Treasury Department, and the White House, the Government ultimately responded to this crisis by agreeing to provide short-term loans to GM and Chrysler, on the condition that they very quickly engage in serious efforts to restructure their business operations, as well as their obligations to other parties, in order to restore those businesses to financial health.

Before the government took action, GM and Chrysler faced an immediate risk of insolvency. Ford was also dramatically and negatively affected by these market conditions, but Ford had a larger "cash cushion" (largely the result of earlier borrowing) and was therefore not in immediate need of the government loans.

Under the terms of the government loans, GM and Chrysler must aim to avoid bankruptcy by negotiating with dealerships, suppliers, bondholders, banks, unions, and other groups to restructure the companies' financial obligations. The loans provide only short-term financial support for GM and Chrysler, and any of the three companies may still be forced to file for bankruptcy at some point in the future.

The UAW and Class Counsel expect the companies will want to amend their obligations to fund the VEBA Trust as part of these restructuring negotiations. It is too early to predict how these discussions might impact the VEBA Trust. As you may have read in the press, the loan terms, as mandated by the Bush Treasury Department, seek modifications of the VEBA funding obligations by allowing 50% of each VEBA contribution to be made in the form of company stock. The Obama Administration has yet to indicate its view on this provision.

The UAW and Class Counsel have retained, or will be retaining, restructuring experts, actuaries and attorneys and will be participating in those discussions in order to make every effort to preserve and protect the resources necessary for the VEBA Trust to provide you with continued medical coverage. Of course, the Committee will monitor these activities closely and inform each of you of on-going developments.

The UAW, Class Counsel and our VEBA Trust Committee fully understand that your medical benefits are vitally important to you and your family. We will do everything in our power to preserve the highest possible level of VEBA funding obligations, so that the VEBA will be able to provide you and your family with continued medical benefits. These events are unfolding rapidly and both the UAW and the Committee will provide further information as further developments occur. All that has happened so far is that the Government has acted to keep the companies alive, and has required the companies to enter into expedited discussions on a broad restructuring of their businesses.

There is another way in which the dramatic weakening of our economy over the last year may impact the VEBA Trust. Prior to the Settlement, each of the companies had established an internal trust fund (called the "Internal VEBA") to help pay for retiree medical benefit costs. As part of the Settlement, the companies were prohibited from withdrawing any assets from those Internal VEBAs. Instead, the Settlement required the companies to keep those Internal VEBAs in place, and to continue to manage the investment of the assets in those Internal VEBAs during 2008 and 2009. The assets in those Internal VEBAs will be turned over to the new VEBA Trust on January 1, 2010 as part of each company's funding obligation for the new VEBA Trust.

Consistent with the Settlement, each of the companies has maintained those assets in a traditional mix of stock and bond investments. Unfortunately, investment returns in the Internal VEBAs -- like investment returns in Section 401(k) plans, university endowments, pension plans, and most every other investment vehicle in the country -- have suffered as a result of the market meltdown that has occurred over the last several months. Of course, no one knows whether the stock and bond markets may recover during 2009. If there is not a significant recovery during 2009, the value of the assets in the Internal VEBAs -- which forms a significant part of the initial funding for the new VEBA Trust -- will have a lower value than originally projected. Again, it is too early to tell what impact this may have on the new VEBA Trust. But it is a matter of concern at this point and so we wanted to bring it to your attention. We will continue to update you on this matter in the future.

Unfortunately, these developments all may have a negative impact on the VEBA's funding level. Again, it is too early to predict the extent of that impact. The UAW, Class Counsel and the Committee are each taking all steps within their power to work to assure the highest possible level of VEBA funding under these difficult circumstances. We will provide further information as it becomes available.

### **Developments at the Trust Fund**

Quite apart from these broader economic developments, the Committee is preparing for the administrative transition that will occur when the VEBA takes over responsibility for administration of the benefits on January 1, 2010. Since court approval late last summer, the Committee has held two organizational meetings of the full Committee, and is already overseeing a great deal of work to prepare for the transition.

Company contributions to the VEBA Trust for medical benefits do not begin until January 1, 2010. Prior to that date, only a relatively small amount of money will be transferred to the VEBA Trust in order to allow the Committee to prepare for full-scale administration of the VEBA Trust in 2010. The Committee recently received the first transfer of funds for that purpose and will use those resources to continue the work necessary for the transition to VEBA administration of the benefits next year.

Over the next year, the Committee will continue to build a team of health care administrators and investment professionals, and will enter into literally hundreds of contracts with benefit providers and others to administer the programs. We have already conducted an extensive search and identified several individuals and consulting firms who are working for the VEBA Trust as we ramp up for full operations on January 1, 2010. As a Committee, our highest priority is to assure a smooth transition on January 1, 2010. We have already put together an excellent team of professionals and consultants to achieve that goal.

During 2009, you will receive additional information about the transition, along with a new ID card to use for the new program.

We hope this information is useful. As events unfold with the companies and their financial difficulties, you will be receiving further information from the appropriate sources. You will also continue to receive updates from the Committee as we move toward the January 1, 2010 benefit transition.

Thank you very much for your continued support as we move forward through these difficult times.

Sincerely,

Robert Naftaly  
Chair, UAW Retiree Medical  
Benefits Trust Committee

Ron Gettelfinger, President  
International Union, UAW  
Member, UAW Retiree Medical  
Benefits Trust Committee