

US: Weirton Steel cancels health care for 10,000 retirees

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13 March 2004

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Weirton Steel, based in Weirton, West Virginia, has announced plans to cancel health benefits for its nearly 10,000 retired steelworkers by the end of this month. Retirees will be forced to pay hundreds of dollars a month to make premium payments or risk going without health insurance. The bankrupt steelmaker has already cut off life insurance coverage for its retirees.

The announcement to terminate health coverage came at the same time that the International Steel Group, which has offered to buy Weirton Steel for \$255 million, said that it had reached a tentative five-year contract with the Independent Steelworkers Union that represents steelworkers at the company.

On average, health insurance for a family costs between \$700 and \$900 a month. This figure could be even higher since steelworkers, as a group, have been exposed to many toxic and carcinogenic substances during their careers, and therefore have a myriad of health problems. Retirees between the ages of 55 and 64 should be eligible for a tax credit that will cover 65 percent of the premium cost; they will still be forced to pay between \$250 and \$315 a month for health insurance.

On several occasions steelworkers at Weirton accepted pay cuts in order to keep the mill operational and with the promise that their health insurance would be maintained for life.

Adding to the difficulties of many retirees, their pensions were already cut substantially when they were taken over by the Pension Benefit Guarantee Corporation (PBGC), a US government body established in 1974. On October 21, the PBGC terminated Weirton Steel's pension plan, disclosing that the pension was underfunded by some \$435 million.

The PBGC does not pay retirees their full pension. For instance, a worker who started working in the mill when he or she was 20-25 years old and worked 30-35 years until age 55 receives a maximum of \$381 a week. A worker who worked until age 60 would receive \$550 a week, but a

worker who retired with 30 years of service at age 50 will only receive a maximum of \$296 a week.

In addition, most Weirton steelworkers who retired before the age of 62 were supposed to receive an additional \$400 a week until they were old enough to collect Social Security. Others who took a special early retirement to avoid layoffs were also given the additional \$400 a month. All those special payments have been eliminated by the PBGC. Also, workers who would have been able to retire under a 70/80 plan or the Rule-of-65 will no longer be able to do so.

Weirton Steel, the nation's fifth largest steelmaker and second largest maker of tin, filed for Chapter 11 bankruptcy last May after posting five years of losses. This past January Weirton laid off 600 employees, reducing the size of its workforce to about 2,800 when it was unable to obtain enough coke to power both its blast furnaces. In 1998 Weirton employed 4,900 people.

On February 18 International Steel Group (ISG) made a \$255 million offer to buy the mills. ISG, which didn't exist three years ago, has made its business acquiring bankrupt steelmakers and slashing wages, benefits and jobs for the active workers, while eliminating healthcare and handing over pensions to the PBGC for the retired steelworkers.

Founded by investor Wilbur Ross, ISG first bought bankrupt LTV in April 2002. In 2003 it acquired the assets of Bethlehem Steel and Acme Metals. Following US Steel, this makes it the second largest steel producer in the US. If the ISG buyout of Weirton goes through it will become the largest steel producer in North America. US Steel will still be slightly bigger when its eastern European operations are taken into account.

At LTV, nearly 100,000 retirees lost their health and life insurance and had their pensions cut. At Bethlehem, 95,000 retirees lost their health care and had their pensions cut. At both companies the United Steelworkers of America (USWA) negotiated new contracts with ISG which cut wages, benefits and pensions while increasing productivity.

The Independent Steelworkers Union (ISU), which represents workers at Weirton, has negotiated a tentative

contract with ISG along the same lines as the one between the USWA and ISG. The five-year contract will eliminate nearly 400 additional jobs, cut wages to between \$14 to \$19.50 an hour, institute a quarterly bonus based on surpassing productivity quotas that have not yet been set and cut health benefits.

In place of the defined benefit pension plan which guarantees workers a set amount based upon age and years of service, ISG and the ISU have agreed to a defined payment plan, by which ISG places in a 401k-style account a set amount for every hour worked and, depending upon how the account fares, determines the worker's pension when he or she retires.

Furthermore, under the new agreement there will be no health coverage for retirees at all. Instead the company will create a \$3.7 million fund out of which it will assist retirees with health care premiums. ISG will add to the fund each year, depending upon profit levels, but this will pay only a tiny fraction of health care costs. Under the now defunct Weirton plan, the company spent 10 times that amount each year providing health coverage for its retired workers.

In contrast to retired and active workers at Weirton Steel, executives of both Weirton and ISG are making millions. According to the most recent proxy statement filed with the US Securities and Exchange Commission (SEC), Weirton President and Chief Executive Officer John Walker earned \$790,000 in 2001 and another \$662,000 in 2000 in salary, bonuses and stock options. While Mark E. Kaplan, sr. vice president of financial administration, earned only \$247,000 in 2001, he took home \$1,081,000 in 2000.

But this was small change when compared to the pay taken in by ISG's top executives. Rodney B. Mott, president and chief executive officer, earned \$333,333 in salary last year, received a bonus of \$632,867, stock options valued at \$2,968,400 and other compensation totaling \$1,015,317, for a grand total of \$4,949,917. In other words, Mr. Mott earned more in one year than ISG is going to contribute towards the health care costs of 10,000 retired and 3,000 active employees.

But even Mott's earnings are small when compared to the income earned by ISG's founder, Wilber Ross, in just the last few months. Ross is not listed with any paid position for ISG, but he is the primary stockholder. According to filings with the SEC, Ross owns 32,142,104 shares or one-third of the company's stock outright. In addition, he owns another 32 million shares that are held through two investment funds which he controls. In less than the four months since ISG went public in December of 2003, Ross earned more than \$385 million on his personal holdings and another \$385 million on what he earned through his investment funds.

Mr. Ross's personal earnings in less than a year, raked in

with the full collaboration of both the United Steelworkers of America and the Independent Steelworkers Union, are enough to pay the health care costs for all retirees for several decades.

Weirton Steel sits on the Ohio River in the very northernmost tip of the West Virginia panhandle between Pennsylvania and Ohio. It was founded in 1909 by Ernest Weir, who merged his company in 1929, along with Detroit's Michigan Steel and Cleveland's M.A. Hanna Steel, to form National Steel Corporation. During the postwar era, Weirton continued to grow; in 1967 it added a basic oxygen furnace and a continuous caster, making it one of the world's most advanced producers of tin.

However, by the 1970s and 1980s Weirton was losing market share as aluminum replaced tin in the beverage industry. Combined with strong global competition, Weirton faced tough economic times. In 1982, National Steel announced that it would no longer make significant capital improvements in the plant.

To keep the mill operating, then president Jack Redline and officials of the Independent Steelworkers Union worked out an Employee Stock Ownership Plan (ESOP) takeover of the mills in Weirton. Workers took substantial cuts in pay in order to buy the company. At its height, it was the largest such enterprise in the United States.

Using the argument that this was "their plant" and they "had to save it," management and the union lobbied workers for massive concessions and work rule changes which allowed the steelmaker to return to profitability for a while. But that did not solve the problem of global competition of the firm's shrinking market share. The mill still needed to be modernized, and in 1989 workers were convinced to sell half of their holdings in the company to pay for \$500 million in improvements. With each new improvement, workers again were forced to sell a greater and greater proportion of their stake in the mill. Today workers own only 21 percent of the mill.



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