What’s Ahead for 2015 UAW Negotiations with FCA, Ford & GM

Kristin Dziczek
Director, Industry & Labor Group
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Recent UAW agreements with FCA, Ford & GM have...

- Held the line on costs (and in some cases, lowered labor costs)
- Put a lot of cash in the members’ pockets
- Incentivized the automakers to hire more workers and grow the union’s membership
The last four years have been really good.
IT’S OUR TURN!

vs.

WE CAN’T GO BACK TO THE OLD WAYS!
WHAT WILL THE FUTURE HOLD?
FCA, Ford & GM employment growth will level off; hiring will continue based on demographic trends.

CAR’s Forecast of FCA, Ford, and GM U.S. Employment, 2015-2018
The Big Challenges
Challenge 1: Future of Entry Level Wage System
Two-tier

Easy to get into; much harder to get out.
UAW, Car Makers Weigh New Class of Hires

Plan envisions possibility of bringing thousands of unskilled jobs handled by parts suppliers in-house

By Jeff Bennett And Christina Rogers  May 10, 2015 7:44 p.m. ET

The UAW's willingness to consider a lower pay scale reflects the depth of its interest in bringing jobs under its wing that were outsourced to suppliers in leaner days. Above, Chevrolet Malibu cars turn a corner on the assembly line at GM's Fairfax assembly plant in Kansas City, Kansas, earlier this month. PHOTO: DAVE KAUP/REUTERS
The parties have three different goals on Tier 2.

- **No More Tiers**
- **Bridge the Gap**
- **Keep (and expand) Tiered Wage Structure**
There are several paths forward...

- Reinstate Caps at FCA and GM
- Long (e.g. 8-year) Grow-In to Top Wage
- New “Destination Wage” for Entry Level Workers
What about reinstating the caps in 2015?

**Entry Level Employment**
All new hire production employees, through the September 14, 2015 expiration of the National Collective Bargaining Agreement, will be hired as Entry Level employees and governed by the terms of the UAW-Chrysler Entry Level Wage and Benefit Agreement M-13.

**Entry Level Ratio**
There shall be no cap on the number of Entry Level employees hired through September 14, 2015. Upon expiration of the 2011 Agreement, the cap shall be:
- FCA: the lesser of 25% or the Entry Level percentage as of September 14, 2015.
- GM: a hiring limit that is based on the entry level percentage as of September 14, 2015, but no more than 25% and no less than 20% of the total GM-UAW hourly population.

Reinstate the caps at 20-25% (new hires > cap bump to Tier 1.5)
FCA: goes from $47 to $52/hour  Ford & GM: no immediate changes
Challenge 2: Base Wage Increases for Everyone
Top Tier workers haven’t had a base wage increase in 8-10 years.

![Inflation-Adjusted Average Hourly Wage for Production Workers](chart)

“Inflation protection” lump sums
- FCA: $8,300* ($0.99/hour)
- Ford: $7,000 ($0.84/hour)
- GM: $4,000 ($0.48/hour)

Signing Bonuses
- FCA: $3,500 ($0.42/hour)
- Ford: $6,000 ($0.72/hour)
- GM: $5,000 ($0.60/hour)

*maximum
My best guess on what we’ll see...

• Top Tier Workers
  – Blend of base wage increase and inflation protection lump sums
  – Smaller signing bonuses than in 2011
• Entry Level Workers
  – Increase the starting wage (now at $15.78)
  – Most likely: 8-year grow in to top tier wage
Challenge 3: Profit Sharing
Must first have profits before they can be shared.

- This is not the first time this has happened; over the 33-year history of profit sharing at FCA, Ford & GM

<table>
<thead>
<tr>
<th>Average Profit Sharing Payout</th>
<th>33-years</th>
<th>Pre-2011</th>
<th>2011 and Later</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrysler/FCA</td>
<td>$1,785</td>
<td>$1,710</td>
<td>$1,950</td>
<td>$375-$8,100</td>
</tr>
<tr>
<td>Ford</td>
<td>$2,550</td>
<td>$2,000</td>
<td>$7,040</td>
<td>$160-$8,800</td>
</tr>
<tr>
<td>GM</td>
<td>$1,300</td>
<td>$660</td>
<td>$6,910</td>
<td>$50-$9,000</td>
</tr>
</tbody>
</table>

- FCA is a little different: 85% global Chrysler=North America and FCA ownership
- My best guess: minor changes at FCA; otherwise, status quo
Challenge 4: Maintain Cost Competitiveness
Average hourly labor costs over time:

• Blended average of the three companies:
  – 1987 = $26/hour
  – 1997 = $45/hour
  – 2007 = $78/hour
  – 2015 = $54/hour
UAW average hourly labor costs have become more competitive with U.S. International automakers.

Source: UAW-Chrysler, UAW-Ford, and UAW-GM 2011 agreements and company reports; Company data and Center for Automotive Research estimates.
Parity in language has resulted in disparity of outcome.

- GM and FCA both had caps suspended...
- ...FCA was able to take greater advantage of the entry level wage through massive hiring over the past four years
- Chrysler up? Ford and GM down?
- Likely outcome: gap between the companies grow closer over the next four years; average hourly labor costs increase modestly—unless there’s a production downturn...
- ...if there’s a production downturn: average hourly labor costs will rise sharply, as lower-cost entry-level will be the first to go (and their income protection payments are less generous)
Challenge 5: Employment & Job Security
Different objectives within the membership

Entry Level want more hiring to push them “over the cap.”

Top Tier want a base wage increase, which may incentivize outsourcing and less hiring.
Job Security

• Strong product commitments are the new job security strategy (no more JOBS bank/GEN pool)
• Mexico is the biggest competitor for UAW work
  – Few vehicles are dual-sourced (RAM, Fusion, Silverado/Sierra, Sonic)
• Differences in weekly regular Supplemental Unemployment Benefits (SUB)
  – Entry Level: $423-$536/week;
  – Top Tier: $826-$962/week;
  – duration based on seniority (26-52 weeks)
  – Transitional Support for up to another 52 weeks (50% wages)
Challenge 6: Manage Health Care Costs
Conflicting health care negotiation goals

UAW
• Maintain and expand benefits without additional cost sharing
• Cost sharing doesn’t lower costs

Automakers:
• Cut cost of the single most expensive benefit
• Incentivize better decision making through cost sharing
The impact of the Cadillac tax is not yet known.

40% Excise Tax Paid by Employers on Value of Health Insurance that Exceeds:

- $10,200 Individual
- $27,500 Family

Scheduled to go into effect in 2018.
2013: $61.1 Billion in VEBA funding; covers 392,000 people; 93% Net Assets/Benefit Obligations
The Largest Health Care Pool in the World

May be About to Get Even Larger
Challenge 7: Manage Pension Costs
Pension Status in 2013*

<table>
<thead>
<tr>
<th></th>
<th>Number of Participants</th>
<th>Assets (Actuarial Value)</th>
<th>Adjusted Funding Target Attainment</th>
</tr>
</thead>
<tbody>
<tr>
<td>FCA-US</td>
<td>118,191</td>
<td>$11.3B</td>
<td>76.9%</td>
</tr>
<tr>
<td>Ford</td>
<td>184,810</td>
<td>$22.9B</td>
<td>106.5%</td>
</tr>
<tr>
<td>GM</td>
<td>455,104</td>
<td>$59.2B</td>
<td>73.6%</td>
</tr>
</tbody>
</table>

*Most recent Form 5500s filed with U.S. Department of Labor
Pension Issues in 2015

- No pension adjustment or lump sum in 2011—for the first time since pension was instituted in 1950s
- Negotiated a letter in 2011 to explore “de-risking” the pension
  - Provide “options” for some or all of existing retirees
  - Help automakers reduce volatility and risk associated with hourly pensions
  - Salaried pensions already “de-risked” (annuity or lump sum)
Challenge 8: Get an Agreement That Ratifies
Background Issues:
Impact of Right to Work

• 2015 contracts will be first to be subject to Michigan’s 2012 Right-to-Work law
• Roughly half of UAW-FCA/Ford/GM membership lives in Michigan
• Anticipate aggressive campaigning by third-party groups to chip away UAW membership
• UAW represents FCA, Ford & GM workers in other RTW states; membership share holds at >90% in these states
  – Indiana (2012)
  – Kansas (1958)
  – Tennessee (1947)
  – Texas (1947)
Many New Lead Bargainers

• All are seasoned bargainers
• Leadership changes @FCA & GM in June
• All but three are new to their leadership roles in this negotiations
Strategies—Assuming UAW maintains “pattern bargaining” approach

• Pick Ford
  – Experienced lead bargainers
  – Very good relationship
  – Largest membership
  – Company is relatively stronger than other two automakers

• Pick GM
  – If want to restore caps on entry level
  – Doing relatively well
  – Can stretch the agreement to fit the other two automakers—porridge is just right

• Pick FCA
  – Get the hard one done first
  – Highest probability of a strike
  – Other automakers won’t choke on a pattern set here
How Will It End?
My best guess on what will happen:

1. Tiers disappear with long grow-in (8-years)
2. Modest raises for Tier 1/Starting wage/Smaller lump sums; less insourcing
3. Maintain profit sharing
4. Cost competitiveness unchanged and gap between three companies closer
5. Product commitments & shift preferences vehicles co-produced in Mexico
6. Health care pool for actives
7. Pension de-risking option; small increases to pension/lump sum
8. Narrow ratification with possibility for non-trivial strikes