2011 Detroit 3–UAW Labor Contract Negotiations

CAR Breakfast Briefing
Schoolcraft Community College
Livonia, Michigan
29 November 2011

Sean McAlinden, Ph.D.
Executive Vice President, Research
Chief Economist

Kristin Dziczek
Director, Labor and Industry Group
Director, Program for Automotive Labor and Education

Art Schwartz, Ph.D.
President, Labor and Economics Associates
Former General Director, Labor Relations, GM
## Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Session Title</th>
<th>Speaker(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8:30</td>
<td>Welcome and Introduction</td>
<td>Sean McAlinden, CAR</td>
</tr>
<tr>
<td></td>
<td>“What’s in the Agreements?”</td>
<td>Kristin Dziczek, CAR</td>
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<tr>
<td></td>
<td>“A Look Back and a Look Forward”</td>
<td>Art Schwartz, Labor &amp; Economics Associates</td>
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<tr>
<td>9:30</td>
<td>Break</td>
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<tr>
<td>9:50</td>
<td>“Well, Who Won?”</td>
<td>Sean McAlinden, CAR</td>
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<td></td>
<td>Panel Discussion</td>
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</tr>
<tr>
<td>11:00</td>
<td>Adjourn</td>
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What’s In the 2011 Detroit 3–UAW Labor Contracts

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Kristin Dziczek
Director, Labor and Industry Group
Director, Program for Automotive Labor and Education
Some Differences, Though Much Remains the Same

• Evolutionary changes, not revolutionary ones
  – Jobs banks eliminated
  – Product & job commitments
  – COLA remains suspended
  – AIF only for Entry Level
  – Lump sums & Profit sharing
  – No pension increases
  – Health care improved; no additional cost sharing

• Held the line on costs
• Put $ in members’ pockets
• Potential to grow employment
Detroit 3 U.S. Market Share*
1986 – 2011**

* Detroit 3 North American “owned” production.
** Through October 2011

Source: Center for Automotive Research
Motor Vehicle & Parts Manufacturing Employment
2000 – 2011*

Source: BLS, U.S. DOL

*2011 through September
CAR Sales Forecast
2011-2020

U.S. Sales Forecast (Millions)

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<tr>
<td>(Millions)</td>
<td>12.6</td>
<td>13.8</td>
<td>14.1</td>
<td>14.8</td>
<td>15.2</td>
<td>15.5</td>
<td>15.6</td>
<td>15.7</td>
<td>15.7</td>
<td>15.6</td>
</tr>
</tbody>
</table>

Source: Center for Automotive Research
Factors Driving Hiring:

- **Profitability & Market**
  - Market recovery and production rebound
  - Profitable at lower volumes

- **Labor**
  - Underlying workforce demographics
  - Labor cost parity possible under recent UAW agreements
  - New job commitments

- **Faster cadence of new products and introduction of advanced vehicle technologies**

- **Technological changes**
  - Need to meet new fuel economy and GHG mandates
  - Improved safety
  - Increased electronics content for safety, connectivity and entertainment

- **Investment**
  - Corporate investment >$17.4B in U.S. and Canada in 2010-2011
  - Government investment incentives (DOE $9.1B, ARRA)

<table>
<thead>
<tr>
<th>Year</th>
<th>Vehicle Production</th>
<th>Automotive Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>7,592,725</td>
<td>566,400</td>
</tr>
<tr>
<td>2011</td>
<td>8,308,448</td>
<td>590,000</td>
</tr>
<tr>
<td>2012</td>
<td>9,120,972</td>
<td>650,000</td>
</tr>
<tr>
<td>2013</td>
<td>9,892,417</td>
<td>696,400</td>
</tr>
<tr>
<td>2014</td>
<td>10,358,185</td>
<td>731,600</td>
</tr>
<tr>
<td>2015</td>
<td>10,803,687</td>
<td>756,800</td>
</tr>
</tbody>
</table>

Source: IHS Global Insight; BLS; CAR Research
Detroit Three Employment Forecast
2001-10, 2011-15 Forecast

Source: CAR Research, August 2011
Detroit Three U.S. Salaried Employment Forecast
2001-10, 2011-15 Forecast

Source: Company Proprietary Data; CAR Research
Detroit Three U.S. Hourly Employment
2001-10, 2011-15 Forecast

Source: Company Proprietary Data; CAR Research
# New 2011 UAW Contracts and Jobs

<table>
<thead>
<tr>
<th></th>
<th>Chrysler</th>
<th>Ford</th>
<th>GM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Signing bonus</strong></td>
<td>$3,500 ($1,750 paid in 2011)</td>
<td>$6,000 ($5,000 for &lt;1 year seniority)</td>
<td>$5,000</td>
</tr>
<tr>
<td><strong>Wages</strong></td>
<td>Entry level $15.78-19.28, four year progression; no change for first tier</td>
<td>Entry level $14.78-19.28, four year progression; no change for first tier</td>
<td></td>
</tr>
<tr>
<td><strong>Jobs</strong></td>
<td>Promises 2,100 new entry-level jobs; 10,000 retained</td>
<td>Promises 5,750 new entry-level jobs; 6,250 previously announced job creation/retention</td>
<td>Promises 6,400 new entry-level jobs; 11,800 previously announced job creation/retention</td>
</tr>
<tr>
<td><strong>Buyouts</strong></td>
<td>None</td>
<td>$100,000 for skilled trades and $50,000 for production workers who retire by 3/31/12</td>
<td>$75,000 for skilled trades who retire by 3/31/12; $10,000 for any workers who leave by 2013</td>
</tr>
<tr>
<td><strong>Profit-sharing</strong></td>
<td>$1 for every $1 million profit based on 85% of worldwide profit; capped at $12,000 per year</td>
<td>$1 for every $1 million in North American profit (Avg. $3,752 payout in November based on Q1-2 2011); capped at $12,000 per year</td>
<td>$1 for every $1 million in North American profit; capped at $12,000 per year</td>
</tr>
<tr>
<td><strong>Retirees</strong></td>
<td>No change to pensions and no bonuses; health care trust may get 10% of workers' profit-sharing</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>COLA</strong></td>
<td></td>
<td>None</td>
<td></td>
</tr>
<tr>
<td><strong>Other bonuses</strong></td>
<td>Four annual payments of $500-1,000; $500-1,000 annual quality bonus; $300 one-time attendance bonus for perfect attendance</td>
<td>Four annual payments of $1,500 for inflation protection; and four annual payments up to $250 per year for competitiveness bonus</td>
<td>Three annual payments of $1,000 for inflation protection (2012-2014); and four annual payments up to $250 per year quality bonus</td>
</tr>
<tr>
<td><strong>Health care</strong></td>
<td>No change to worker contribution; $20 co-pay for unlimited office visits</td>
<td>No change to worker contribution; $20 co-pay for unlimited office visits</td>
<td>No change to worker contribution; $25 co-pay for unlimited office visits</td>
</tr>
</tbody>
</table>

Source: Center for Automotive Research, UAW-Chrysler, UAW-Ford, and UAW-GM White Books
# UAW Contract Economics

<table>
<thead>
<tr>
<th></th>
<th>Chrysler</th>
<th>Ford</th>
<th>GM</th>
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</thead>
<tbody>
<tr>
<td><strong>New Agreement</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Base Wages</td>
<td>$29.11</td>
<td>$28.89</td>
<td>$28.49</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4 zeros on the base</td>
</tr>
<tr>
<td><strong>Entry Level</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$15.78-19.28</td>
<td>$15.78-19.28</td>
<td>$14.78-19.28</td>
</tr>
<tr>
<td></td>
<td>No cap; 25% in 2015</td>
<td>20% cap</td>
<td>No cap; 20-25% in 2015</td>
</tr>
<tr>
<td><strong>COLA</strong></td>
<td></td>
<td></td>
<td>Suspended</td>
</tr>
<tr>
<td><strong>Lump Sums</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,750 in 2011; $1,750 when EBITDA&gt;Net Interest for 5Qs; $1,000-$2,000 quality and performance for 4 years</td>
<td>$6,000 in 2011; $1,750 for 4 years</td>
<td>$5,000 in 2011; $1,250 for 3 years</td>
</tr>
<tr>
<td><strong>Profit Sharing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1,000/$1 billion 85% NA Range $1,250-$12,000; no minimum payout</td>
<td>$1/$1 million; Range $1,250-$12,000; payout $3,752</td>
<td>$1,000/$1 billion; Range $1,250-$12,000; payout $3,500</td>
</tr>
<tr>
<td><strong>Buyouts</strong></td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$50,000 production, $100,000 trades by 3/12</td>
<td>$10K production through 2013, $75K trades by 3/12</td>
<td></td>
</tr>
<tr>
<td><strong>Total Economic Gains</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$7,800-11,800 plus profit sharing</td>
<td>$15,752-16,752 plus profit sharing</td>
<td>$12,250 plus profit sharing</td>
</tr>
</tbody>
</table>

*Source: Center for Automotive Research, UAW-Chrysler, UAW-Ford, and UAW-GM White Books*
## 2011 UAW Contract Benefits

<table>
<thead>
<tr>
<th></th>
<th>Chrysler</th>
<th>Ford</th>
<th>GM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Traditional Active Health</strong></td>
<td>Unlimited $25 office visits, urgent care $50, ER $100, no increase in drug co-pay, no premiums</td>
<td>Unlimited $20 office visits, $50/100 co-pay for urgent care/ER visits, 3% increase in drug co-pay, primary care pilot, no premiums</td>
<td>Unlimited $25 office visits, urgent care $50, ER $100, no increase in drug co-pay, no premiums</td>
</tr>
<tr>
<td><strong>Traditional Retiree Health</strong></td>
<td>UAW Health Care Trust may get additional funding though diversion of up to 10% of profit sharing payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Entry Level Health</strong></td>
<td>Unlimited $25 office visits, no copay for urgent care or ER</td>
<td>Unlimited $20 office visits, no copay for urgent care or ER</td>
<td>Unlimited $25 office visits, no copay for urgent care or ER</td>
</tr>
<tr>
<td></td>
<td>$300/$600 deductibles covered by a $300/$600 HSA</td>
<td></td>
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<tr>
<td></td>
<td>$1,000/$2,000 out-of-pocket cap</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Entry Level Retiree Health</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$1 per hour worked in a 401(k)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Life Insurance</strong></td>
<td>Added</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Legal Services</strong></td>
<td>Will end as of December 2013</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Traditional Pension</strong></td>
<td>No Changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Entry Level Pension</strong></td>
<td>6.4% of earnings, converts to a 401(k) January 2012 (GM, Ford) or March 2012 (Chrysler) for existing entry-level workers 4.0% of earnings in 401(k) for new hires under 2011 agreement</td>
<td></td>
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</tr>
</tbody>
</table>

*Source: Center for Automotive Research, UAW-Chrysler, UAW-Ford, and UAW-GM White Books*
# UAW Contract Job Security

<table>
<thead>
<tr>
<th>Jobs Bank</th>
<th>Eliminated</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUB</td>
<td>Simplified, replenished</td>
</tr>
<tr>
<td>Temporary Workers</td>
<td>Not made permanent</td>
</tr>
<tr>
<td>Job &amp; Product Guarantees</td>
<td>$4.5B investments ($1.3B new) 2,100 jobs</td>
</tr>
<tr>
<td>Insourcing</td>
<td>Ability to bid on contracts to bring work back</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>Moratorium maintained</td>
</tr>
<tr>
<td>Skilled Trades</td>
<td>3 work groups, elimination of classifications, 400 new apprentices</td>
</tr>
<tr>
<td>Plant Closing Exemptions</td>
<td>None</td>
</tr>
</tbody>
</table>

Source: Center for Automotive Research, UAW-Chrysler, UAW-Ford, and UAW-GM White Books
Skilled Trades Bargaining Goals

• “Competitive with transplants”
  – Lower labor costs
  – Increase skilled trades utilization
  – Lower skilled trades headcount

• Maintain apprenticeable classifications
• Commitment to training (and adding apprentices)
• Soft landing for those who leave or must work production
Skilled Trades Teams and Classifications

• Three teams: Mechanical, Electrical and Tool & Die
• Classifications have been reduced
  – Designated “core” classifications that are apprenticable
  – Grandfathered a number of classifications
  – Eliminated unpopulated classifications
• Cross training for classifications
• 2007, 2009 and 2011 changes (an ongoing process)
Skilled Trades 2011 Contract Changes

• Work Rules
  – Can volunteer to work production (Ford: $50K buydown)
  – Can be forced to work production (at trades rate, no buydowns)

• Training
  – Continued cross-training to new classifications
  – GM: Journeyperson-in-Training classification

• Apprentices
  – Chrysler: 400*
  – Ford: None
  – GM: 1,300

• Rates
  – Frozen
  – GMCH cut to GM rates ($5 over 6 months)

• Insourcing
  – Bid on previously outsourced work when up for contract renewal and new work

• Special Attrition Programs
  – Chrysler: No program
  – Ford: $100,000 to leave by March 2012
  – GM: $75,000 to leave by March 2012
  – Return laid-off trades to trades positions, where available

*Trenton South Technical Specialists will have opportunity if/when apprenticeships become available.
A Capacity Issue?

• Will have 28 U.S. assembly plants operating
• Unlikely to build new bricks and mortar
• In a 15-16 million+ market, capacity may be an issue
• More captive imports?

• More alternative work schedules (AWS)?
• AWS enabled by national language, determined by local agreements
• AWS includes a range of schedules:
  – Compressed (4 10-hour shifts)
  – Flexible (3/2/120—3 crew, 2 10-hour shifts, no OT = adds 49 days/year)
...And After: Social Media and the 2011 UAW-Detroit Three Negotiations
Conclusion: Automotive Workforce Trends

• Flexible
  – Employment (temps/contractors)
  – Multi-skilling (everyone must wear more hats)
  – Compensation (rewards in good years; labor costs fall in bad years)
  – Scheduling (alternative work schedules)
• Continuous improvement (everyone’s a problem solver)
• Systems approach (helps to be able to see the big picture)
• The so-called labor shortage – low wages and a shortage of company training?
A Look Back and A Look Forward

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Art Schwartz, Ph.D.
President, Labor and Economics Associates
Former General Director, Labor Relations, General Motors

Source: Center For Automotive Research
Total Labor Cost*

- In 1979 = $15.25 per hour
- In 1987 = $25.90 per hour
- In 1997 = $45.06 per hour
- In 2007 = $78.00 per hour

*(Nominal $)
There Was a Huge Pension Hole

- Especially at GM, with over 400,000 retirees and surviving spouses
- A lesser, though very real problem at Ford and Chrysler
- Pension which was $8.50/mo./year of service in 1979, now $54.30
- 30 and out, which was $700, grew to $3,170
- And HEALTH CARE!!
GM Timeline of Significant Events

2005
First VEBA for retiree health care
First Special Attrition Program

2006

2007
Second Special Attrition Program
Regular National Negotiations

2008
Save the Company Bargaining Version I
Save the Company Bargaining Version II

2009
The 363 Bankruptcy
Third Special Attrition Program
Art Retires

CAR CENTER FOR AUTOMOTIVE RESEARCH
2007 Contract: A Game Changer

- **VEBA**
- **Entry level wages ($14)**
- No pay increase, **BUT**
  - Signing bonus of $3,000
  - Lump sums of 3%, 3%, 4% (last two were suspended in 2009)
  - COLA (suspended in 2009)
  - Pensions increased
  - Product guarantees (not fulfilled)
How GM Went from $78 to $56 per Hour

Source: Company reports, CAR research
2011 Labor Cost Competitiveness

- **Ford**: $58
- **GM**: $56
- **Toyota**: $55
- **Chrysler**: $52
- **Honda**: $50
- **Nissan**: $47
- **Hyundai**: $44
- **VW**: $38

*Source: Company reports, CAR research*
Difference between Ford and Chrysler’s Reported Labor Costs, 2010

- Entry Level
  - Percent
  - Wage rate
- Profit Sharing
  - $750 vs. $5,000
- Hours worked
  - Plants on changeover
  - OT differences
- Fresh start accounting
  - Pension impact
  - Other costs, mostly legacy

$49-51*  $58*  

* Company reports
Cost-of-Living-Adjustment (COLA)

• Management does not like COLA because
  – It is automatic, regardless of profitability
  – It compounds and adds to wage rate over time
• A 10 cent per quarter diversion had been negotiated in 2007
• By the 2009 negotiations, COLA was zero
• Had it continued, it would have been about 90 cents by 2011
• Continues to be suspended in 2011 contract
• With conservative inflation forecast, by the end of the 2011 contract, COLA could have been:
  – $2.17 without diversions or
  – $0.56 with a 10 cent per quarter diversion
• Will be an issue again in 2015
Pensions

• All Detroit 3 U.S. pensions underfunded
• No pension increase in 2011 contract for first time since pension initiated in 1950 GM contract
• GM projects no pension payments until 2015 ($2.3B) and 2016 ($1.2B)
• Company has 15 years to pay off underfunding under the 2010 Pension Relief Act – yet assumption of 8% return on fund is absurd, and discount rate is falling . . .
## Future VEBA Payments

<table>
<thead>
<tr>
<th></th>
<th>Remaining Payments Due to the UAW Retiree Health Care Trust</th>
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</thead>
<tbody>
<tr>
<td>Chrysler</td>
<td>7/15/12 $400M</td>
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<tr>
<td></td>
<td>7/15/13 $600M</td>
</tr>
<tr>
<td></td>
<td>7/15/14-15-16-17 $650M/year</td>
</tr>
<tr>
<td></td>
<td>7/15/18-19-20-21-22 $823.8M/year</td>
</tr>
<tr>
<td></td>
<td>7/15/23 $827.1M</td>
</tr>
<tr>
<td></td>
<td>TOTAL $1.709B AND VEBA retains 41.5% equity stake in Chrysler</td>
</tr>
<tr>
<td>Ford</td>
<td>Paid-in-full</td>
</tr>
<tr>
<td>General Motors</td>
<td>• $6.5B Series A preferred stock (9% interest; $585M/year)</td>
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<tr>
<td></td>
<td>• Warrant to acquire 45,454,545 shares of common stock at $42.31/share</td>
</tr>
<tr>
<td></td>
<td>• VEBA retains 10.3% equity stake in GM</td>
</tr>
</tbody>
</table>

Source: Center for Automotive Research, UAW-Detroit Three Contracts
Labor Cost Competitiveness
2015 Projections

- D3: 0.68-1.65% annual labor cost growth
- Internationals
  - Not a monolith
  - “Grow in” = temporal advantages
  - CAR assume a 1% annual labor cost growth rate

<table>
<thead>
<tr>
<th>Hourly Labor Cost Comparison, 2015</th>
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<tbody>
<tr>
<td>Ford</td>
</tr>
<tr>
<td>GM</td>
</tr>
<tr>
<td>Toyota</td>
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<tr>
<td>Chrysler</td>
</tr>
<tr>
<td>Honda</td>
</tr>
<tr>
<td>Nissan</td>
</tr>
<tr>
<td>Hyundai</td>
</tr>
<tr>
<td>VW</td>
</tr>
</tbody>
</table>

Source: Company reports, CAR research
Effect on Suppliers

• Detroit 3 will not “get into” the component business again – but some parts of production will be insourced.
  – Higher entry level will slow down some insourcing
  – Parts and components that require intensive R&D or large CAPEX will not come back
• Non-manufacturing will continue to be contracted out.
• UAW will want U.S. last stage supply to be from union supplier facilities.
What to Look For in 2015 Negotiations

- Keep entry level cap to provide bridge to tier 1
- Raise entry level pay, and reduce the gap again
- Need something for retirees, especially if VEBA begins to run out of money
- Will have pressure from rank and file for a pay increase and restored COLA
What to Look For in 2015 Negotiations

- Removal of the entry level cap
- No additional pension liabilities
- Time to raise employee cost share on health care
- Stay the course on variable compensation
  - No pay increase (14 years!)
  - Lump sums
  - No COLA
Conclusions

• The key issue will be the future of the two-tier system—how will it develop
  – Cap?
  – Continue to close the gap?
  – Evolve to an intermediate rate with no cap?
• A secondary issue will be how committed the parties are to variable compensation
  – Continue to be the basis of compensation?
  – Some return of fixed increases?
• Employee contribution for active health care will also be a key issue
  – This is a “go to war” issue for the UAW—they believe they have already paid for it
  – Largest benefit cost for active – 8% employee contribution versus 30-35% on average for the country
• SEE YOU IN FOUR YEARS!
BREAK
Well, Who Won?
2011 Detroit 3–UAW Labor Contract Negotiations

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Sean McAlinden, Ph.D.
Executive Vice President Research, and Chief Economist
2011: Sean’s Initial Observations

- UAW will raise the “count” or increase union employment
- Companies will keep the concessions, move to flexible compensation, avoid balance sheet costs, compete with transplants
- UAW gained some of the “success”
- Companies reduced risk of fixed labor costs – labor no longer a strategic risk component
- Union spread risk to the rank-and-file (R&F)
- Union leadership ended bargaining successfully with management, not so much with R&F yet . . . Chrysler?
- Cost gap with transplants not yet closed—but not widening
- Competitiveness with suppliers reduced
- GM, Ford met goals – but not maybe Chrysler
- UAW must still organize to survive
UAW Membership
1979 – 2010

Source: U.S. Department of Labor
### 2011 N.A. Operating Profit Per Vehicle
(Through Q3 ‘11)

<table>
<thead>
<tr>
<th></th>
<th>N.A. EBIT ($ Million)</th>
<th>N.A. Sales (unit)</th>
<th>Profit Per Vehicle ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrysler*</td>
<td>$1,467</td>
<td>1,376,000</td>
<td>$1,066</td>
</tr>
<tr>
<td>Ford</td>
<td>$5,302</td>
<td>1,880,514</td>
<td>$2,819</td>
</tr>
<tr>
<td>General Motors</td>
<td>$7,342</td>
<td>2,206,476</td>
<td>$3,327</td>
</tr>
</tbody>
</table>

*Global income and sales
Source: Automotive News; corporate third quarter financial reports.
Profitable at Lower Sales Volumes
2006 vs. 2011 YTD

U.S. Sales

- 2006: 16.6 million
- 9-Mo. 2011 (SAAR): 12.5 million

Corporate Net Income

- Ford: $6.6 billion (2006), $4.0 billion (9-Mo. 2011)
- GM: $7.1 billion (2006), $5.0 billion (9-Mo. 2011)
- Chrysler: $14.0 billion (2006), $0.3 billion (9-Mo. 2011)
- Toyota: $0.0 billion (2006), $1.7 billion (9-Mo. 2011)
- Honda: $0.3 billion (2006), $1.7 billion (9-Mo. 2011)

Source: Automotive News, Company Annual Reports; Data through September 2011
## Entry-Level Labor Costing Example
### 2011 and 2015

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base Wages</strong></td>
<td>16.32</td>
<td>18.41</td>
</tr>
<tr>
<td><strong>PTO, OT, Layoff</strong></td>
<td>4.41</td>
<td>5.34</td>
</tr>
<tr>
<td><strong>Profit Sharing &amp; Lump Sums</strong></td>
<td>2.32</td>
<td>3.38</td>
</tr>
<tr>
<td><strong>Subtotal: Payroll Related</strong></td>
<td>23.05</td>
<td>27.13</td>
</tr>
<tr>
<td><strong>Active Health Care(^1)</strong></td>
<td>3.82</td>
<td>5.20</td>
</tr>
<tr>
<td><strong>Pension &amp; Retiree Health Contribution(^2)</strong></td>
<td>2.04</td>
<td>1.79</td>
</tr>
<tr>
<td><strong>Statutory</strong></td>
<td>3.69</td>
<td>4.34</td>
</tr>
<tr>
<td><strong>Other Insurance &amp; Fringe</strong></td>
<td>1.10</td>
<td>1.50</td>
</tr>
<tr>
<td><strong>Subtotal: Fringe Related</strong></td>
<td>10.65</td>
<td>12.83</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>33.70</td>
<td>39.95</td>
</tr>
</tbody>
</table>

*Source: Center for Automotive Research, UAW-Detroit Three Contracts*

\(^1\) Assume 8% annual health care inflation

\(^2\) Pension contribution cut from 6.4% to 4% for entry-level hired under new agreement; $1/hour worked for retiree health care 401(k)
## Tier 2 or Entry-Level Really Matters . . .

<table>
<thead>
<tr>
<th></th>
<th>GM</th>
<th>Ford</th>
<th>Chrysler</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 2 Percentage by 2015</td>
<td>17%</td>
<td>12%</td>
<td>23%</td>
</tr>
<tr>
<td>Blended Wage Rate 2015</td>
<td>$59.95</td>
<td>$60.72</td>
<td>$54.46</td>
</tr>
<tr>
<td>Annual Growth Rate ‘11-’15</td>
<td>0.68%</td>
<td>0.92%</td>
<td>1.65%</td>
</tr>
</tbody>
</table>

*Source: Center for Automotive Research estimates based on UAW-Detroit Three contracts and proprietary data*
2015 Average Hourly Labor Costs as a Function of Entry-Level Workforce Percent

Source: Center for Automotive Research, UAW-Detroit Three Contracts
## Impact on Cash

($ Millions)

<table>
<thead>
<tr>
<th></th>
<th>2011-2012</th>
<th>2014-2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrysler</td>
<td>$132</td>
<td>$94</td>
</tr>
<tr>
<td>Ford</td>
<td>588</td>
<td>349</td>
</tr>
<tr>
<td>General Motors</td>
<td>580</td>
<td>314</td>
</tr>
</tbody>
</table>

*Includes CAR estimates for lump sums, profit sharing and estimates for SAP costs.
The Final Calculations: UAW People, 2011-2015

<table>
<thead>
<tr>
<th></th>
<th>2011 UAW Count</th>
<th>Total Hiring</th>
<th>2015 UAW Count****</th>
<th>Labor Increase Annual Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrysler*</td>
<td>23,150</td>
<td>2,500</td>
<td>25,150</td>
<td>2.1%</td>
</tr>
<tr>
<td>Ford**</td>
<td>41,000</td>
<td>5,000</td>
<td>45,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>General Motors***</td>
<td>46,000</td>
<td>7,250</td>
<td>50,250</td>
<td>2.2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>110,150</td>
<td>14,750</td>
<td>120,400</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

*Does not include salaried UAW. **Does not include ACH. ***Does not include GMCH. Netted for 2011-2015 attrition.
## The Final Calculations: UAW Cost, 2011-2015

<table>
<thead>
<tr>
<th></th>
<th>Starting 2011 Compensation (billions)</th>
<th>Ending 2015 Compensation (billions)</th>
<th>Change in UAW Labor Cost (millions)</th>
<th>Change in N.A. Per Vehicle Cost (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chrysler</td>
<td>$2.18</td>
<td>$2.53</td>
<td>$350</td>
<td>$166</td>
</tr>
<tr>
<td>Ford</td>
<td>4.44</td>
<td>5.05</td>
<td>615</td>
<td>96</td>
</tr>
<tr>
<td>General Motors</td>
<td>4.96</td>
<td>5.57</td>
<td>608</td>
<td>85</td>
</tr>
</tbody>
</table>


*Does not include amortized 2011 signing bonus, does include forecast profit-sharing.
The Final Calculations: UAW Cost, 2011-2015

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>UAW Labor Compensation ($ Billion)</td>
<td>UAW Labor Cost Per N.A. Vehicle ($)</td>
</tr>
<tr>
<td>Chrysler</td>
<td>$2.18</td>
<td>$1,127</td>
</tr>
<tr>
<td>Ford</td>
<td>4.44</td>
<td>1,660</td>
</tr>
<tr>
<td>General Motors</td>
<td>4.96</td>
<td>1,617</td>
</tr>
<tr>
<td>Weighted Average</td>
<td></td>
<td>$1,508</td>
</tr>
</tbody>
</table>


*Does not include amortized 2011 signing bonus, does include forecast profit-sharing.
UAW cost still a big share of D3 value add . . . (on cars)

Crosswalk from total vehicle revenue to weighted average cost of automotive supplier Components (2010 actual data)

$ per vehicle (‘000, 2010 USD)

Average revenue per unit
OEM margin, overhead and conversion costs
• SG&A
• Assembly
• OEMs’ own manufacturing
• OEM margins
UAW: 1.6
Price of purchased components and materials
Estimated margin on components and materials
Cost of components and materials
• Represents weighted average cost (e.g., $100 component with 10% penetration contributes $10)

Source: Merrill Lynch, McKinsey analysis
Sean’s Conclusions

- UAW still the most expensive auto labor (except at Chrysler); cost will fall with hiring of 2nd tier workers
- UAW defended active worker health, increased 2nd tier wage, maintained a 20-25% cap on 2nd tier
- UAW will lose two assembly plants, bring one back, renewed many others
- Skilled trades only marginally reduced
- Vehicle price inflation should exceed labor cost inflation, and if productivity maintained = higher profits
- Net employment only marginally increased
- New contract **Not** groundbreaking (2007 and 2009 contracts **WERE**)
- In the long run, two tier wages **Do Not** make sense
- Salaried & executive productivity and cost now a strategic issue
Sean’s Other Conclusions

• UAW leadership has committed to the competitiveness of it’s employers—at some considerable political risk . . . This will last.

• Transplants should consider UAW representation as a collective voice efficient necessity, and as a positive political economic alternative . . . All vehicles built here would be “American.”

• Transplants now pay a much higher cost for market cyclicality than the D3. Employee relations cost higher as well.

• A “Grand Bargain” eliminates labor cost as a competitive factor.
PANEL DISCUSSION

Sean McAlinden—Moderator
Kristin Dziczek
Art Schwartz
Please Mark Your Calendar:

CAR Management Briefing Seminars
August 6-9, 2012
Traverse City, Michigan

Additional information is available at CAR’s website: www.cargroup.org

Thank you for attending!