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

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Director, Industry & Labor Group

CAR Industry Briefing

23 June 2015

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.

Detroit Free Press

GM, Wilson compromise, agree on $5B buyback
March 9, 2015

Chicago Tribune

Ford beats estimates as CEO looks to 2015 profit gain
January 29, 2015

The New York Times

G.M. Reports Strong Sales and Higher Profit
April 23, 2015

REUTERS

Ford profit beats expectations, sets record for North America
July 24, 2014

Los Angeles Times

Resurgent General Motors posts record profit for 2011
February 26, 2012

autoblog

Chrysler Records Big Profit, Expands Future Plans
January 30, 2013

The Detroit News

Marchionne encourages employees to 'dream big' in 2015
January 28, 2015

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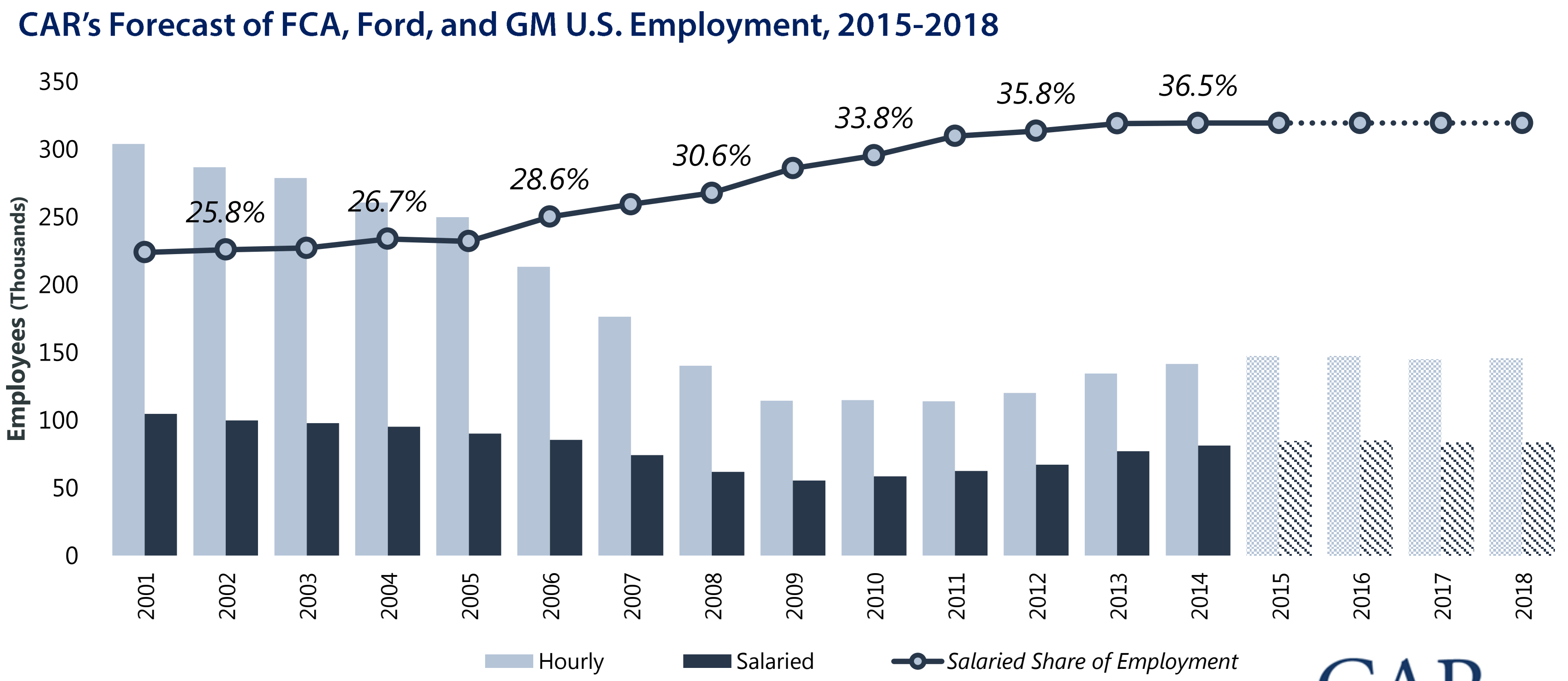
IT'S OUR TURN!

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.



Source: Center for Automotive Research

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The Big Challenges

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Challenge 1: Future of Entry Level Wage System

Two-tier

Easy to get into; much harder to get out.

THE WALL STREET JOURNAL.

BUSINESS

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

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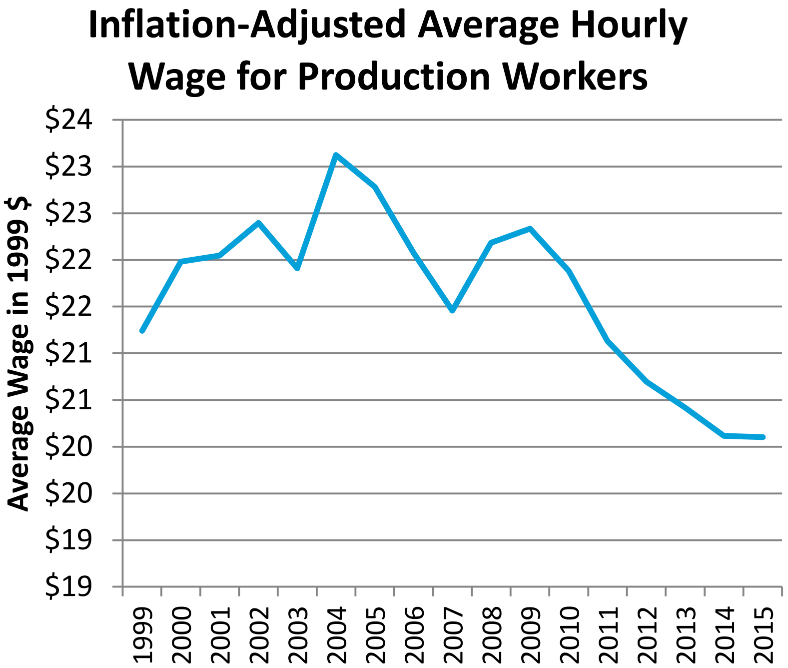
Challenge 2: Base Wage Increases for Everyone

Top Tier workers haven't had a base wage increase in 8-10 years.



Source: UAW-GM Contract, adjusted using CPI-W (1982-1984=100)

"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*

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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

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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

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

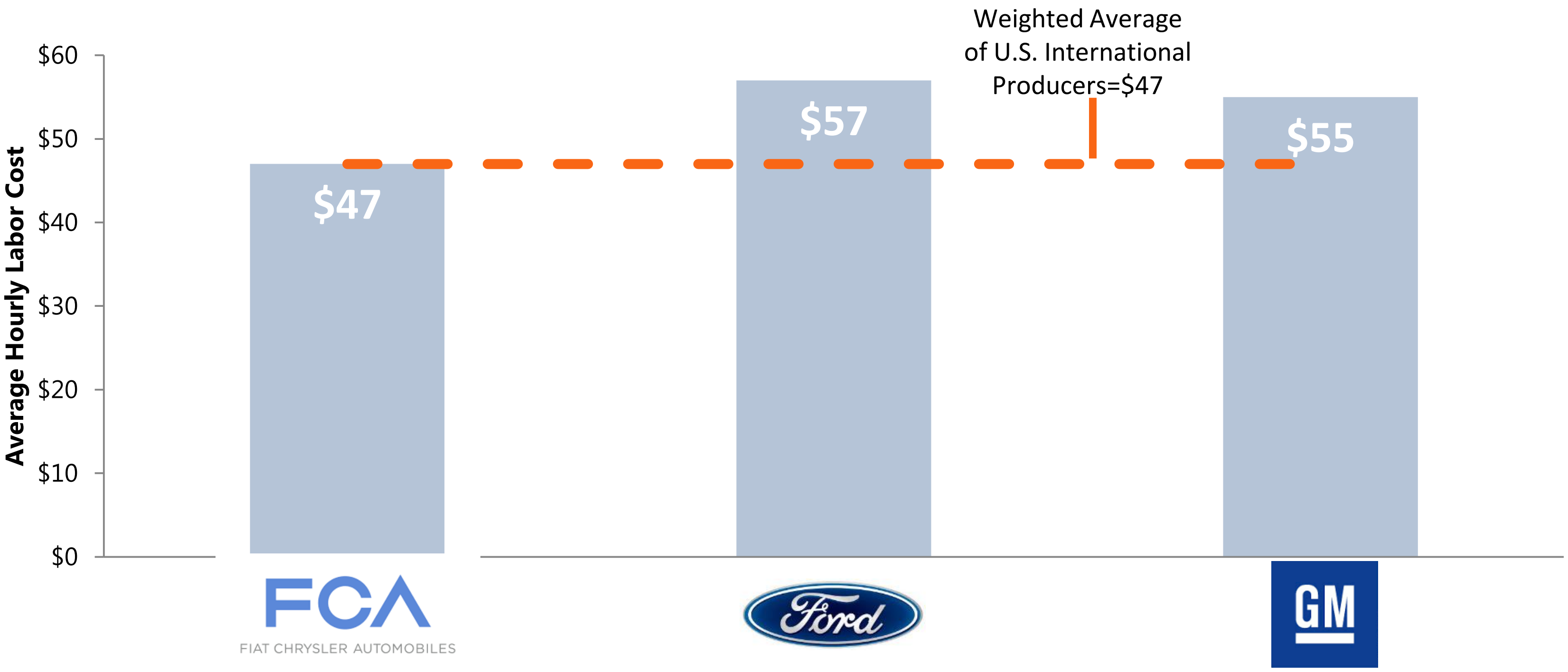
- FCA is a little different: 85% global Chrysler=North America and FCA ownership
- My best guess: minor changes at FCA; otherwise, status quo

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.

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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)

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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)

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Challenge 6: Manage Health Care Costs

Conflicting health care negotiation goals

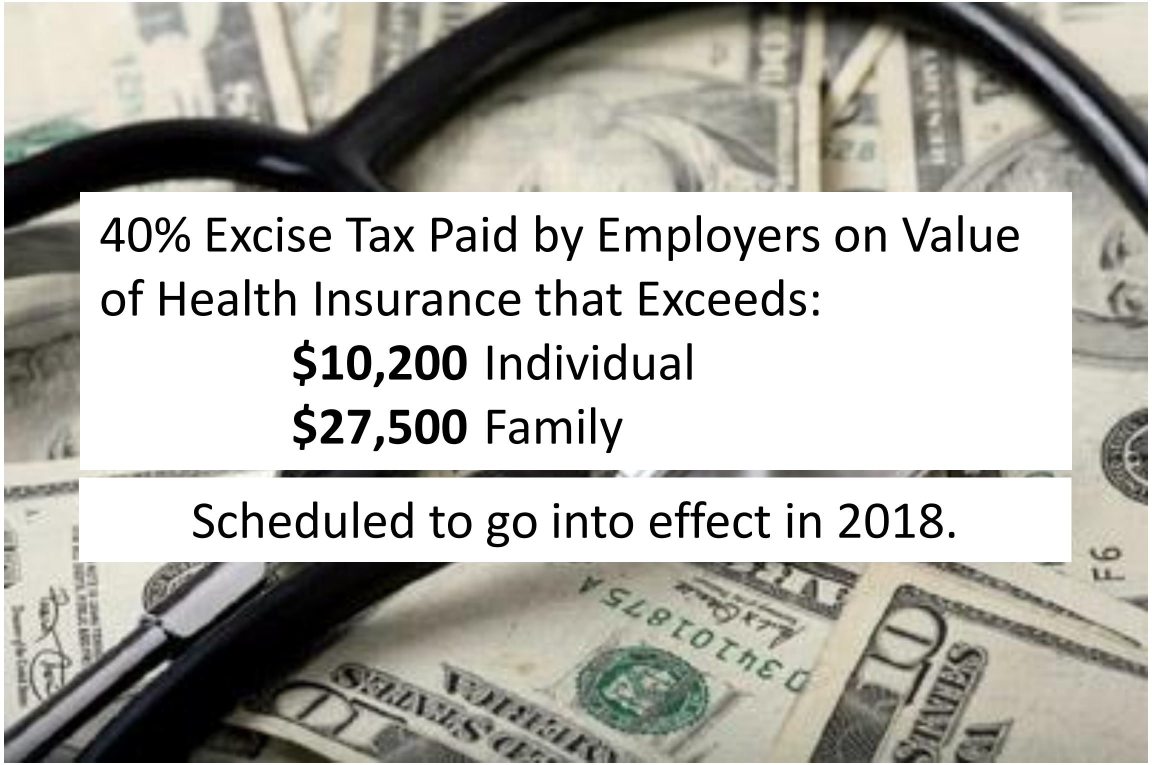
UAW

- 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.



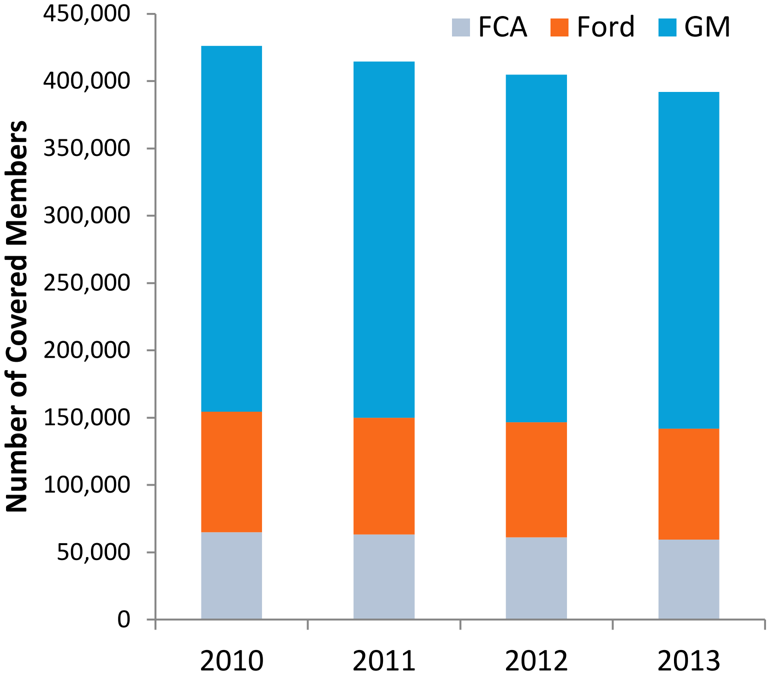
40% Excise Tax Paid by Employers on Value of Health Insurance that Exceeds:

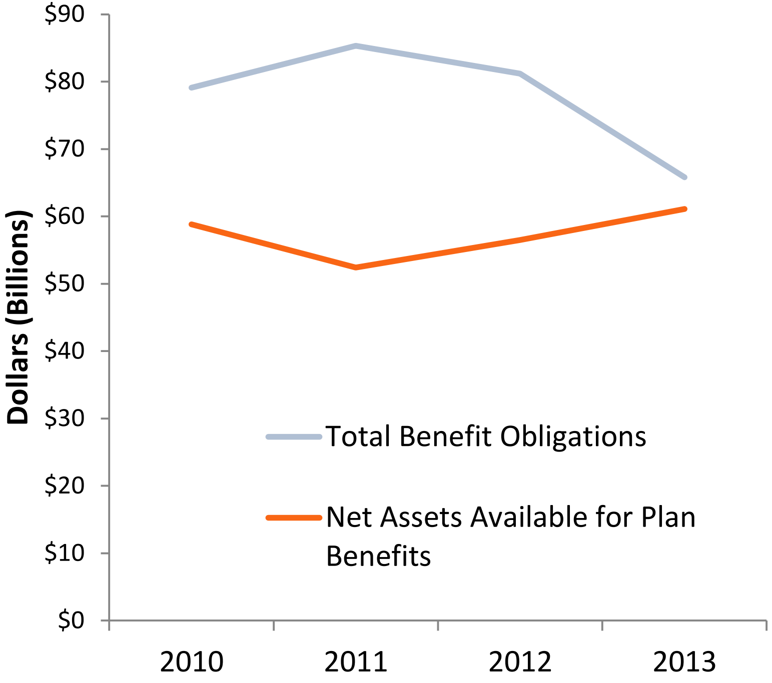
$10,200 Individual

$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





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The Largest Health Care
Pool in the World
May be About to Get Even Larger

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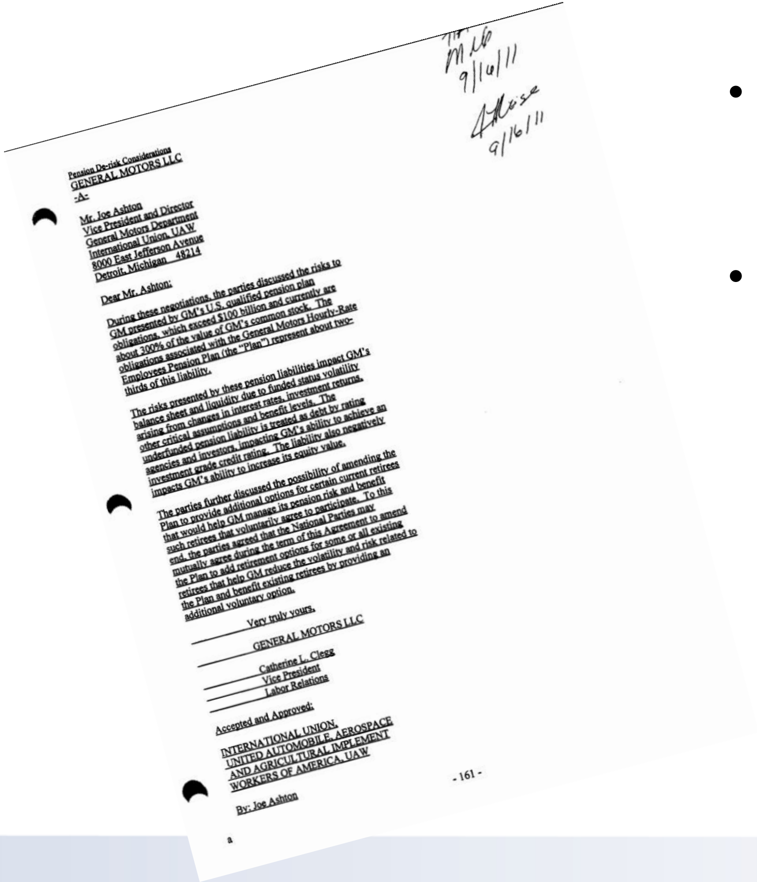
Challenge 7: Manage Pension Costs

Pension Status in 2013*

	Number of Participants	Assets (Actuarial Value)	Adjusted Funding Target Attainment
FCA-US	118,191	$11.3B	76.9%
Ford	184,810	$22.9B	106.5%
GM	455,104	$59.2B	73.6%

**Most recent Form 5500s filed with U.S. Department of Labor*

Pension Issues in 2015



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Pension De-risk Considerations
GENERAL MOTORS LLC
-A-

Mr. Joe Ashton
Vice President and Director
General Motors Department
International Union, UAW
8000 East Jefferson Avenue
Detroit, Michigan 48214

Dear Mr. Ashton:

During these negotiations, the parties discussed the risks to GM presented by GM's U.S. qualified pension plan obligations, which exceed $100 billion and currently are about 300% of the value of GM's common stock. The obligations associated with the General Motors Hourly-Rate Employees Pension Plan (the "Plan") represent about two-thirds of this liability.

The risks presented by these pension liabilities impact GM's balance sheet and liquidity due to funded status volatility arising from changes in interest rates, investment returns, other critical assumptions and benefit levels. The underfunded pension liability is treated as debt by rating agencies and investors, impacting GM's ability to achieve an investment grade credit rating. The liability also negatively impacts GM's ability to increase its equity value.

The parties further discussed the possibility of amending the Plan to provide additional options for certain current retirees that would help GM manage its pension risk and benefit such retirees that voluntarily agree to participate. To this end, the parties agreed that the National Parties may mutually agree during the term of this Agreement to amend the Plan to add retirement options for some or all existing retirees that help GM reduce the volatility and risk related to the Plan and benefit existing retirees by providing an additional voluntary option.

Very truly yours,

GENERAL MOTORS LLC

Catherine L. Clegg
Vice President
Labor Relations

Accepted and Approved:

INTERNATIONAL UNION,
UNITED AUTOMOBILE, AEROSPACE
AND AGRICULTURAL IMPLEMENT
WORKERS OF AMERICA, UAW

By: Joe Ashton

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- 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)

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Challenge 8: Get an Agreement That Ratifies

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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)

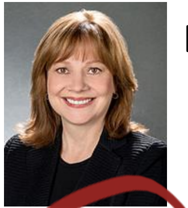
Many New Lead Bargainers

Ford

Fields

Dirksen

GM



Barra

Clegg

FCA
FIAT CHRYSLER AUTOMOBILES

Marchionne

Shagena

- All are seasoned bargainers
- Leadership changes @FCA & GM in June
- All but three are new to their leadership roles in this negotiations

UAW

Williams

Casteel

Settles

Estrada

Jewell

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

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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