

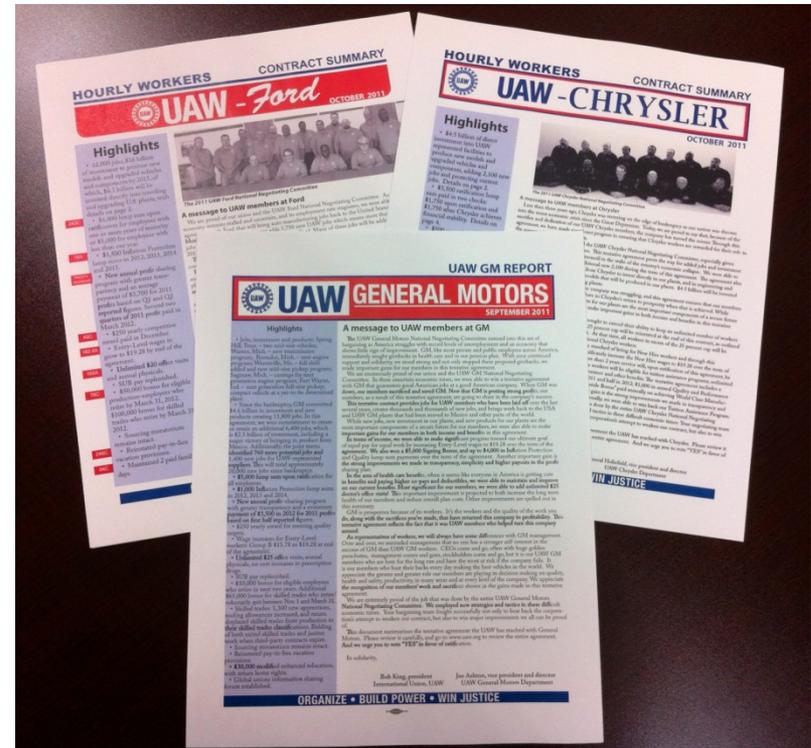
An Analysis of the 2011 UAW-Detroit Three Contracts, and a Look Ahead to 2015 Talks

Nineteenth Annual Automotive Outlook Symposium
Federal Reserve Bank of Chicago
Detroit, Michigan
1 June 2012

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Overview

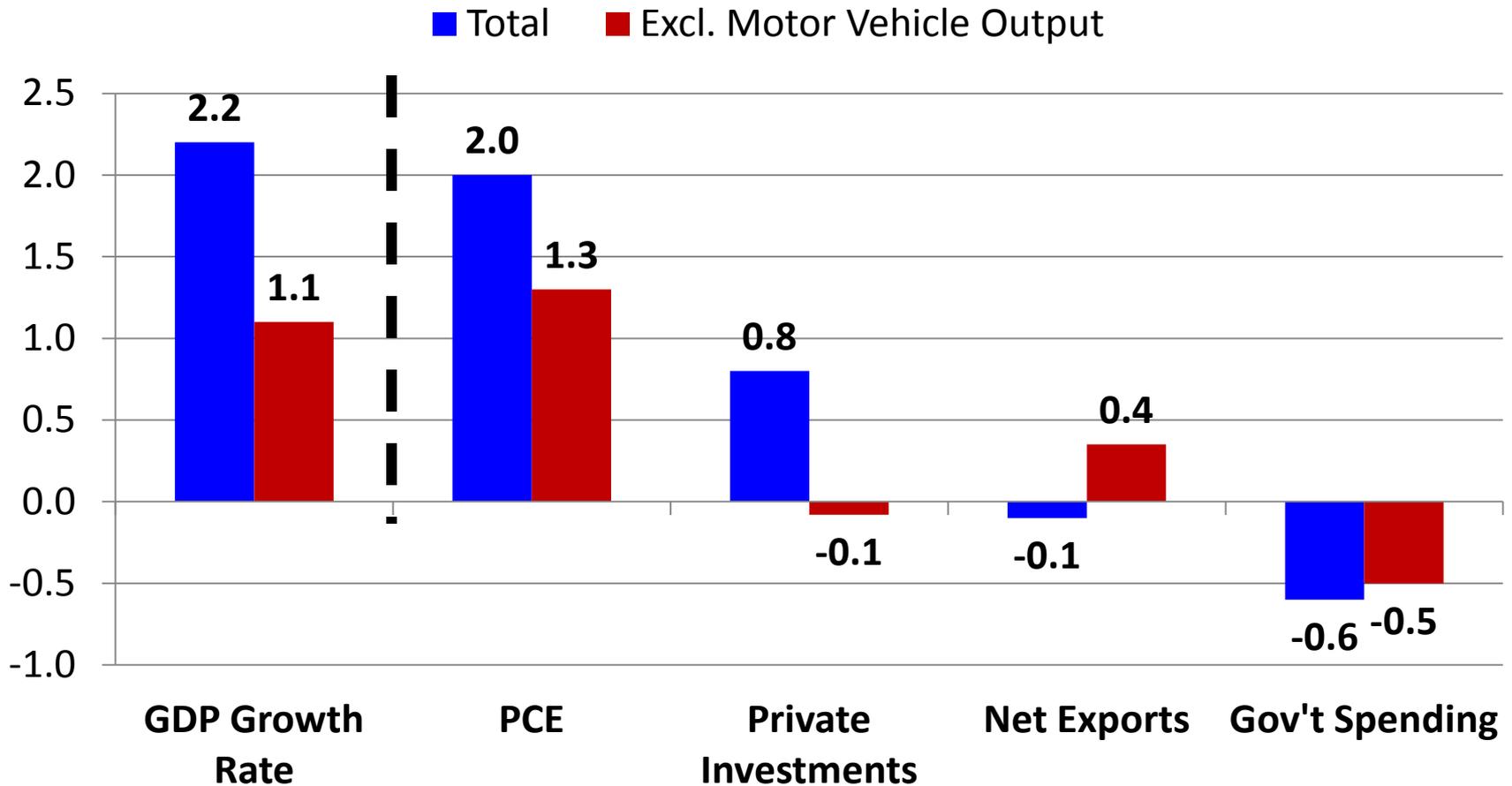
- Employment Forecasts
- 2007 Contract Review
- 2011 Contract Details
- Business Impacts
- 2015 Contract Outlook



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 >\$24B in North American in 2010-2011
 - Government investment incentives (DOE \$9.1B, ARRA)

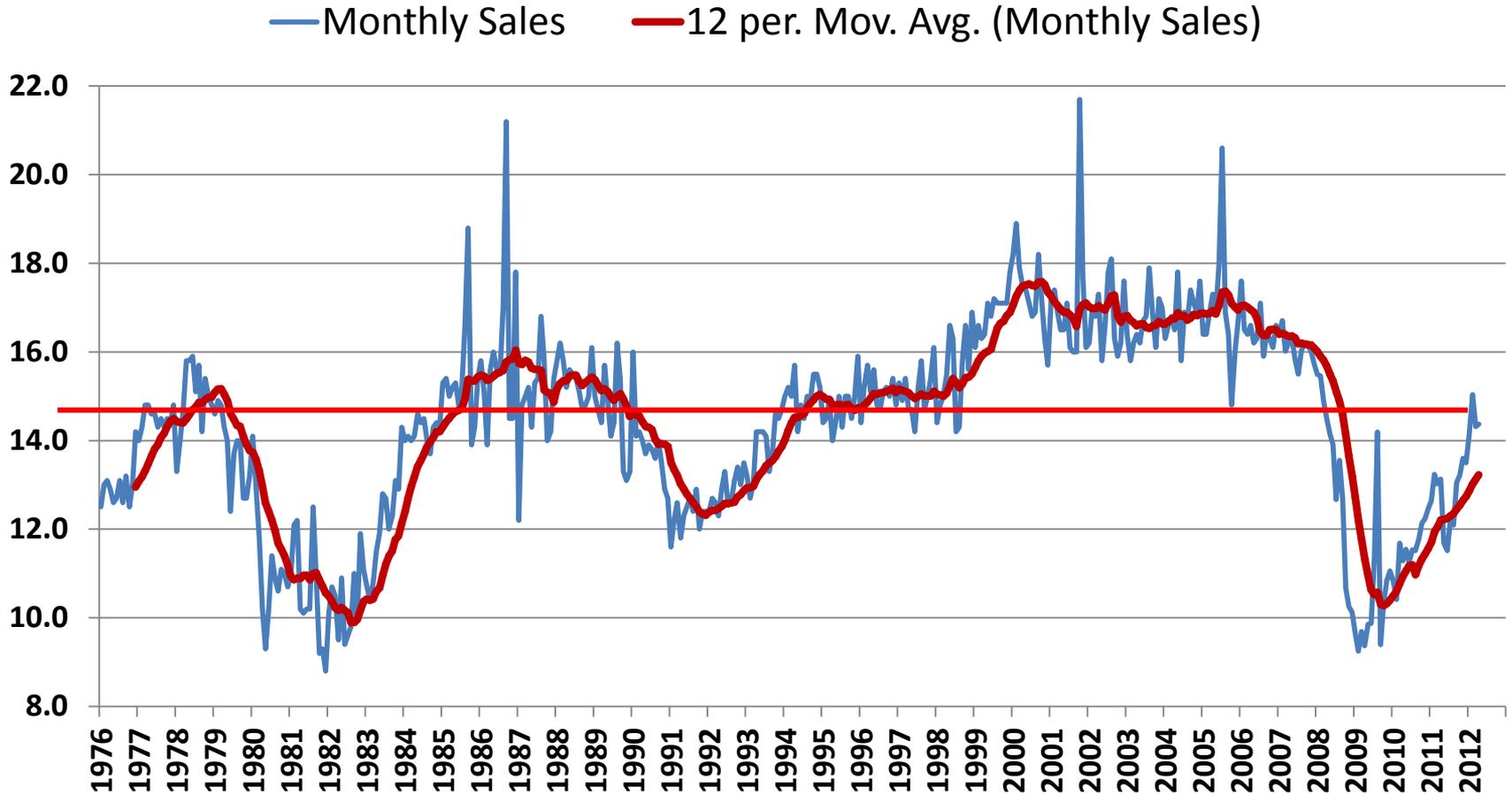
Autos are Slowly Pulling U.S. Out of the Ditch: Auto Contributes Half of Real GDP Growth 1Q 2012



Source: BEA; CAR
Numbers are rounded and may not be exact to original data.

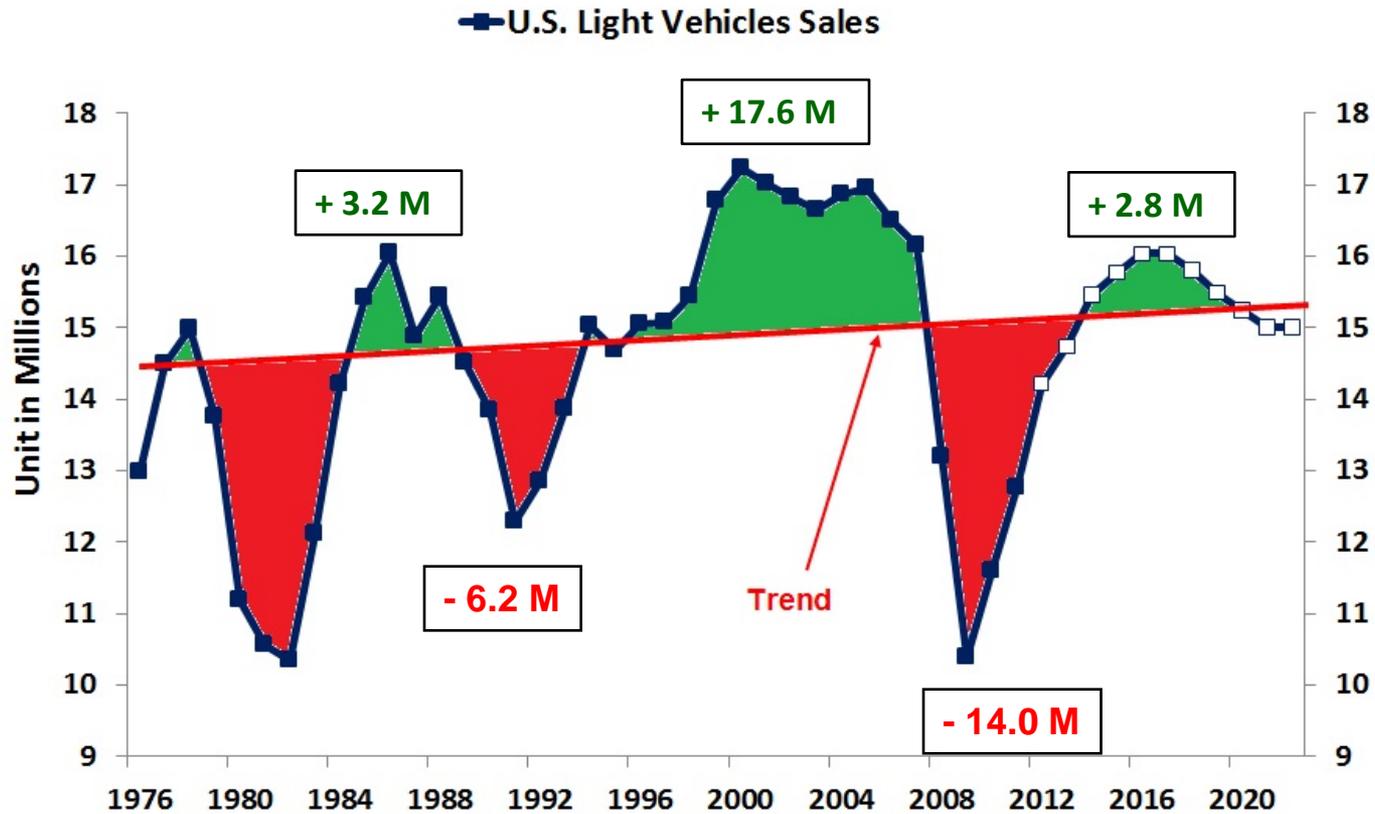
Employment Forecasts

Recovery is Slow: Monthly Sales (SAAR) 1976-2012



Source: BEA

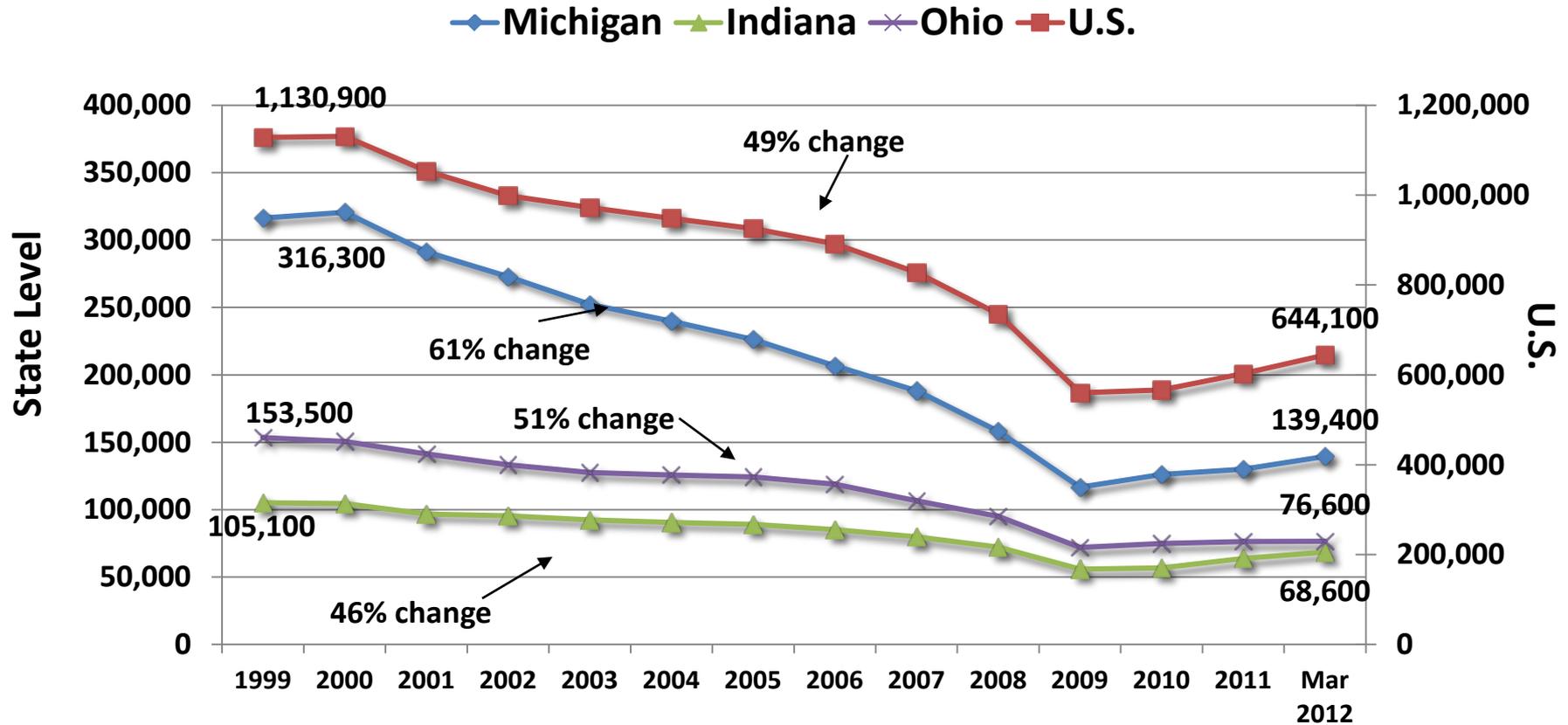
CAR Sales Forecast, 2012-2022



U.S. Sales Forecast (Millions)										
2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
14.2	14.7	15.5	15.8	16.0	16.0	15.8	15.5	15.2	15.0	15.0

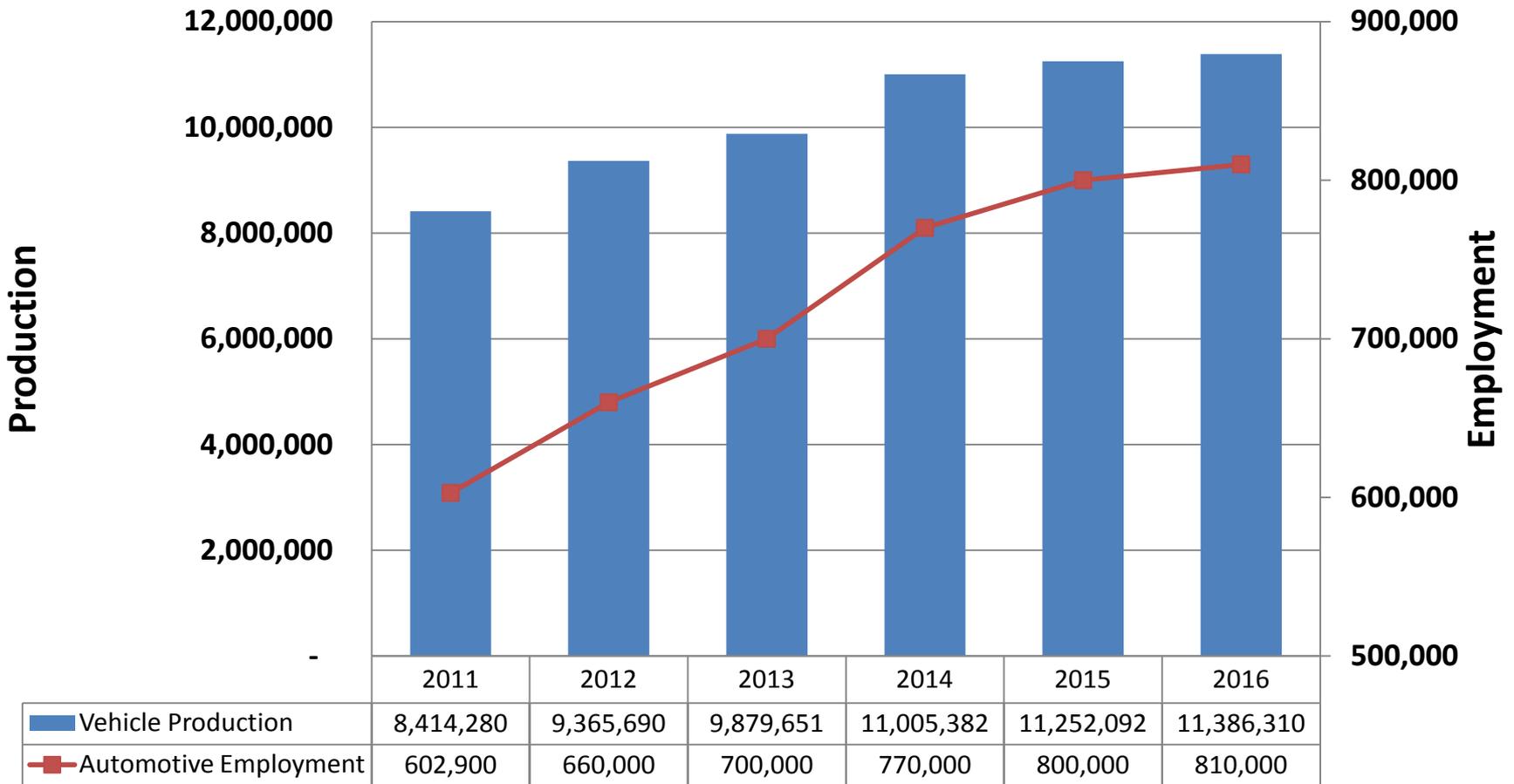
Source: CAR

Motor Vehicle & Parts Manufacturing Employment, 1999 – Mar. 2012



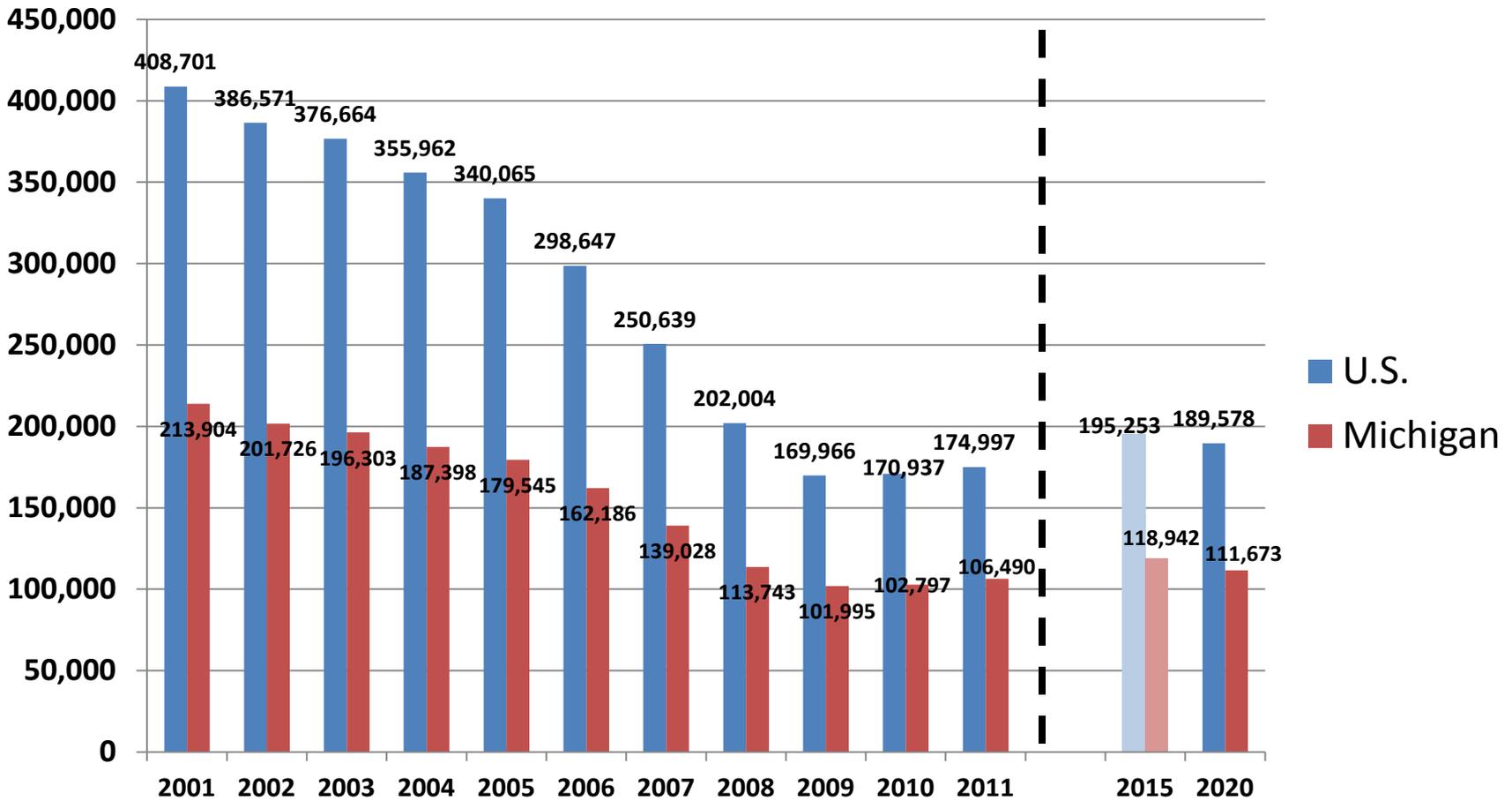
Source: BLS, U.S. DOL

U.S. Vehicle Production & Automotive Employment Forecasts, 2011-2016



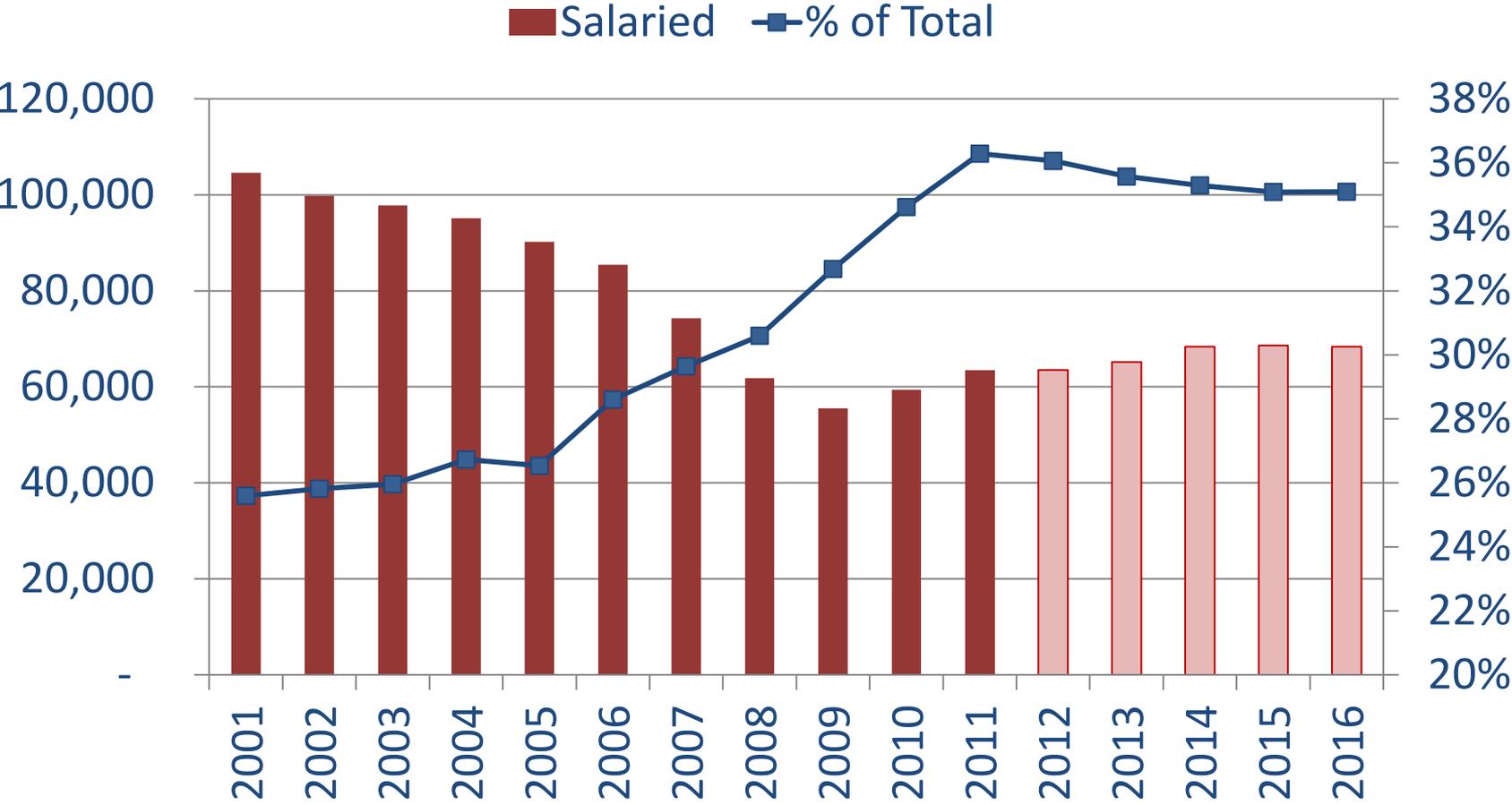
Source: LMC-Automotive; BLS; CAR

Detroit Three Employment and Forecast 2001-2011, 2015, and 2020



Source: CAR, May 2012

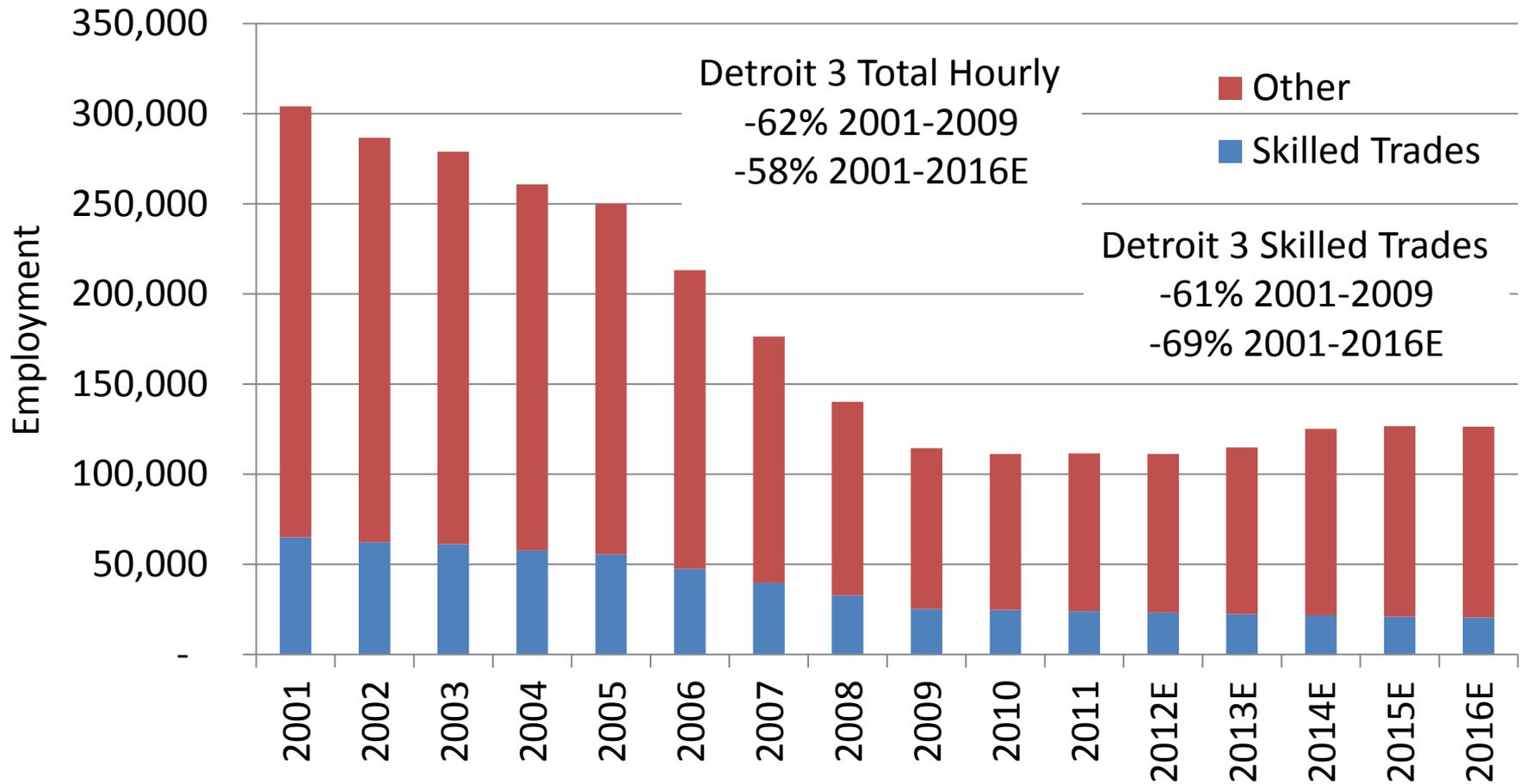
Detroit Three U.S. Salaried Employment— 2001-11, 2012-16 Forecast



Source: Company Proprietary Data; CAR

Detroit Three U.S. Hourly Employment

2001-2011 Actual, 2012-2016 Forecast



Detroit Three U.S. Employment Demographics 2006, 2009, and 2010

	Average	2006	2009	2010
Hourly	Age	46.3	46.7	45.0
	Seniority	18.8	17.5	16.0
Salaried	Age	44.1	45.5	(D)
	Seniority	15.6	14.8	(D)

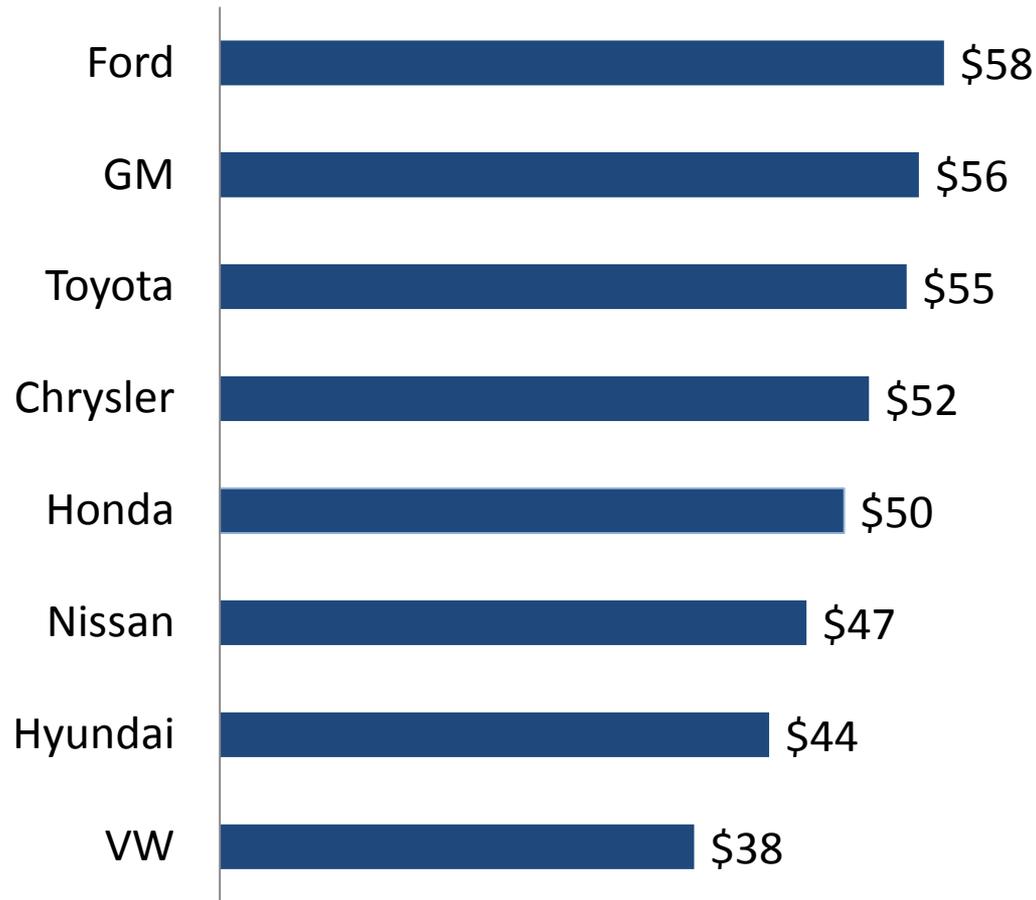
Source: Company Proprietary Data; CAR
 (D): CAR did not receive all three companies' data to compile the statistics.

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)

Lowered average hourly labor costs from
~\$72-78/hour to ~\$50-58/hour

2011 Labor Cost Competitiveness



Source: Company reports, CAR research

Difference between Ford and Chrysler's Reported Labor Costs, 2010



\$49-51*



\$58*

- 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

** Company reports*

2011 Contracts: 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

New 2011 UAW Contracts and Jobs

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

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

UAW Contract Economics

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

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

2011 Contract Details

2011 UAW Contract Benefits

			
Traditional Active Health	Unlimited \$25 office visits, urgent care \$50, ER \$100, no increase in drug co-pay, no premiums	Unlimited \$20 office visits, \$50/100 co-pay for urgent care/ER visits, 3% increase in drug co-pay, primary care pilot, no premiums	Unlimited \$25 office visits, urgent care \$50, ER \$100, no increase in drug co-pay, no premiums
Traditional Retiree Health	UAW Health Care Trust may get additional funding through diversion of up to 10% of profit sharing payments		
Entry Level Health	Unlimited \$25 office visits, no copay for urgent care or ER	Unlimited \$20 office visits, no copay for urgent care or ER	Unlimited \$25 office visits, no copay for urgent care or ER
	\$300/\$600 deductibles covered by a \$300/\$600 HSA \$1,000/\$2,000 out-of-pocket cap		
Entry Level Retiree Health	\$1 per hour worked in a 401(k)		
Life Insurance	Added		
Legal Services	Will end as of December 2013		
Traditional Pension	No Changes		
Entry Level Pension	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		

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

2011 Contract Details

UAW Contract Job Security

			
Jobs Bank	Eliminated		
SUB	Simplified, replenished		
Temporary Workers	Not made permanent	65% of Long-term supplemental employees made permanent	Not made permanent
Job & Product Guarantees	\$4.5B investments (\$1.3B new) 2,100 jobs	\$16B investments (\$6.3B in retooling plants) 5,750 jobs	\$7.1B investments (\$2.5B new) 6,400 jobs
Insourcing	Ability to bid on contracts to bring work back		
Outsourcing	Moratorium maintained		
Skilled Trades	3 work groups, elimination of classifications, 400 new apprentices	No new apprentices	1,300 new apprentices
Plant Closing Exemptions	None	Twin Cities, Cleveland Engine #2 and Walton Hills Stamping to close	Shreveport to close

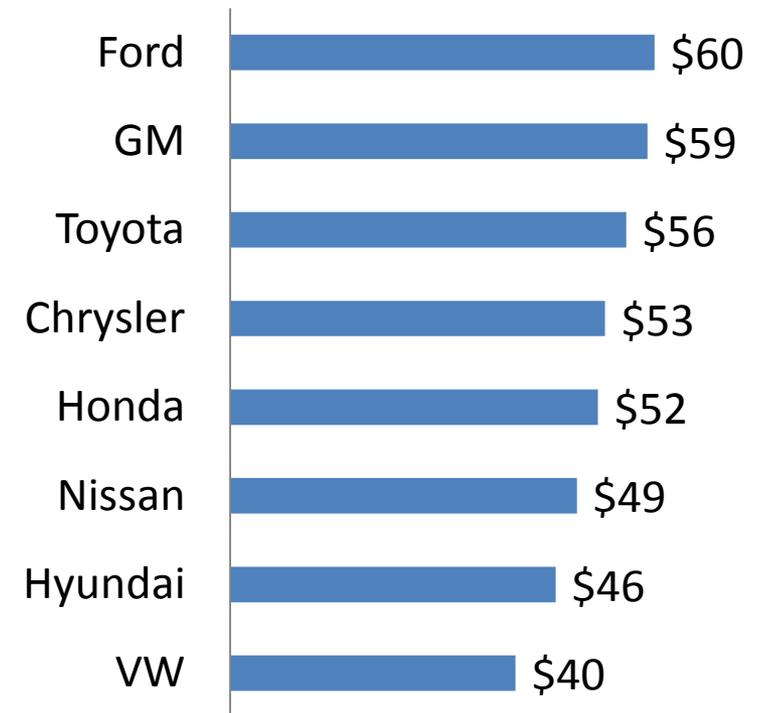
Source: Center for Automotive Research, UAW-Chrysler, UAW-Ford, and UAW-GM White Books

Labor Cost Competitiveness

2015 Projections

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

Hourly Labor Cost Comparison, 2015



Source: Company reports, CAR research

Entry-Level Labor Costing Example

2011 and 2015

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

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

¹ Assume 8% annual health care inflation

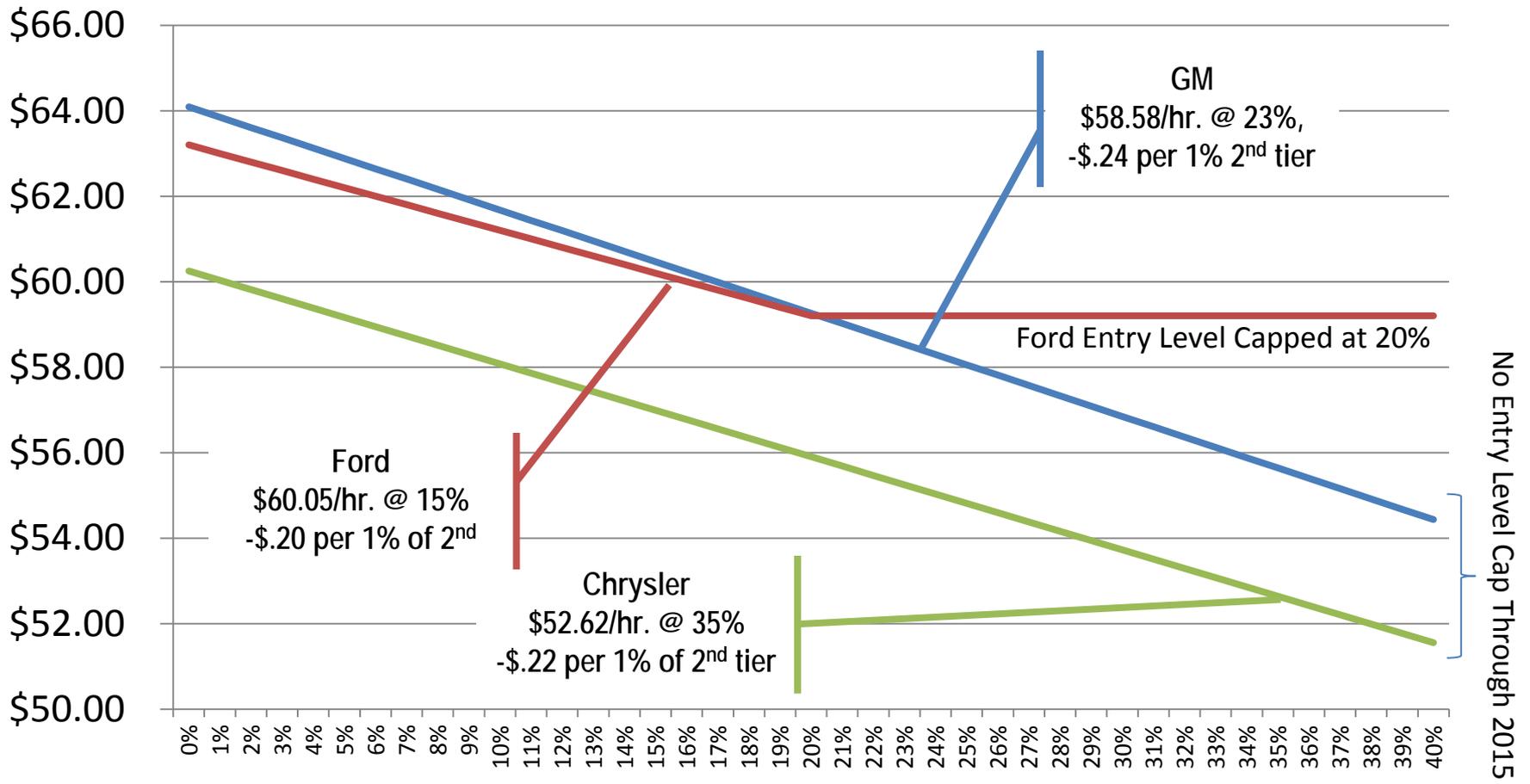
² Pension contribution cut from 6.4% to 4% for entry-level hired under new agreement; \$1/hour worked for retiree health care 401(k)

Tier 2 or Entry-Level Really Matters . . .

	GM	Ford	Chrysler
Estimated Tier 2 Percentage by 2015	23%	15%	35%
Estimated Blended Wage Rate 2015	\$58.58	\$60.05	\$52.62
Annual Growth Rate '11-'15	0.10%	0.64%	0.78%

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

No Change in UAW Average Cost/Vehicle, 2011-2015

	2011		2015	
	UAW Labor Compensation (\$ Billion)	UAW Labor Cost Per N.A. Vehicle (\$)	UAW Labor Compensation (\$ Billion)	UAW Labor Cost Per N.A. Vehicle (\$)
Chrysler	\$2.18	\$1,103	\$2.73	\$1,195
Ford	4.44	1,715	4.74	1,743
General Motors	4.96	1,775	5.67	1,691
Weighted Average		\$1,573		\$ 1,572

*Note: CAR forecast uses IHS Automotive N.A. production forecast for 2011-2015.
For 2015: GM 3.275 mil., Ford 2.879 mil., Chrysler 1.960 mil.*

**Does not include amortized 2011 signing bonus, does include forecast profit-sharing.*

2011 N.A. Operating Profit Per Vehicle

(Through Q3 '11)

	N.A. EBIT (\$ Million)	N.A. Sales (unit)	Profit Per Vehicle (\$)
Chrysler*	\$1,467	1,376,000	\$1,066
Ford	\$5,302	1,880,514	\$2,819
General Motors	\$7,342	2,206,476	\$3,327

*Global income and sales

Source: Automotive News; corporate third quarter financial reports.

Impact on Cash

(\$ Millions)

	2011-2012	2014-2015*
Chrysler	\$132	\$105
Ford	588	331
General Motors	580	327

*Includes CAR estimates for lump sums, profit sharing and estimates for special attrition program costs.

UAW Detroit Three Employment, 2011-2015

	2011 UAW Count	Total Hiring	2015 UAW Count	Labor Increase Annual Percentage
Chrysler*	23,150	6,600	28,000	4.87%
Ford**	41,000	6,600	42,700	1.02%
General Motors***	46,000	10,400	52,300	3.26%
TOTAL	110,150	23,600	123,000	2.80%

Does not include salaried UAW. **Does not include ACH. *Does not include GMCH. Netted for 2011-2015 attrition.*

UAW Cost, 2011-2015

	Starting 2011 Compensation (billions)	Ending 2015 Compensation (billions)	Change in UAW Labor Cost (millions)	Change in N.A. Per Vehicle Cost (dollars)
Chrysler	\$2.18	\$2.73	\$544	\$92
Ford	4.44	4.74	296	28
General Motors	4.96	5.67	705	(84)

Note: CAR forecast uses LMC-Automotive N.A. production forecast for 2011-2015.
For 2015: GM 3.35 mil., Ford 2.72 mil., Chrysler 2.28 mil.

*Does not include amortized 2011 signing bonus, does include forecast profit-sharing.

What to Look For in 2015 Negotiations

- Keep entry level cap to provide bridge to traditional wage
- 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

CHRYSLER



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

2015 Bargaining Environment

- Profitable years 2010-2014?
- Pressure to raise wages for traditional and entry level
- Employment totals begin to plateau in 2014-15
- Entry level hiring to replace attrition, not growth
- New leadership

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

VEBA Funding

- 520,000 contracts covering about 825,000 individuals
- Roughly 40% are NOT Medicare eligible
- There are over 100,000 actives in grow-in to retirement
- Funding shortfall of over \$20B in 2010 (across all UAW-Detroit Three VEBAS)*
- Overall funding/obligations at all three companies was ~74% in 2010*
- Added option to divert up to 10% of profit sharing to VEBA fund in 2011 contract
- Ford is paid-in-full; Chrysler and GM still owe series of payment AND equity stake

\$58.8B net assets for plan benefits/\$79.1B total benefit obligation

* 2010 Form 5500s for UAW-Detroit Three VEBAs

2015 Contract Outlook

VEBA Funding—Stream of Payments

	Still Owed to VEBA
Chrysler	7/15/12 \$400M 7/15/13 \$600M 7/15/14-15-16-17 \$650M/year 7/15/18-19-20-21-22 \$823.8M/year 7/15/23 \$827.1M Plus 41.5% equity stake
Ford	Paid-in-full
General Motors	\$6.5B Series A preferred stock (9% interest; \$585M/year) Warrant to acquire 45,454,545 shares of common stock at \$42.31/share Plus 10.3% equity stake

Source: CAR, UAW Contracts, Company financial statements

Labor and Capacity

- D3 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
- Plant conversions (truck-to-car or car-to-truck)?
- More captive imports?
- More alternative work schedules (AWS)*?
- Cancelling Summer shutdowns
- More third shifts = hiring entry level workers (~12% currently)



*AWS enabled by national language, determined by local agreements; 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 others.

Detroit Three North American Overall Plant Capacity Analysis by Type and Company, 2012-2018

			2012	2015	2018
All Plants (40)	Over Capacity Rate	Chrysler (10)	22%	16%	14%
		Ford (12)	20%	8%	5%
		GM (18)	23%	11%	9%
Full Frame (12)	Over Capacity Rate	Chrysler (2)	13%	14%	9%
		Ford (5)	23%	16%	15%
		GM (5)	9%	-11%	-14%
Unibody (28)	Over Capacity Rate	Chrysler (8)	24%	17%	16%
		Ford (7)	19%	3%	-1%
		GM (13)	29%	20%	17%

Source: CAR Research, LMC Automotive. Sales include imports.

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?
 - Will it be replicated at other companies?
- 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?
 - Is this an industry trend?
- 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
 - What is the impact on supplier benefit packages?
- Pensions could become an issue
 - Depends on fund returns
 - Pension increases
- Before 2015: VEBA funding
 - Monetizing equity stakes
 - Diversion of profit sharing?