

The Truth about UAW Members and the U.S. Auto Industry

Q: Are UAW members really paid \$73 an hour?

A: No. Wages for UAW members at Chrysler, Ford and GM range from about \$14 an hour for newly hired workers to \$28 an hour for assemblers to \$33 for skilled trades workers.

Typical hourly wages at Honda, Nissan and Toyota are only slightly lower. Due to the effect of profit-sharing formulas, however, there have been some recent years in which a typical Toyota worker has taken home a larger annual paycheck than a typical GM worker.

The \$73 an hour figure is outdated and inaccurate. It includes not only the costs of health care, pensions, and other compensation for current workers, but also **the costs of the pensions and health care benefits of retired employees spread out over the active workers.** Active workers never receive any of this compensation in any form, so it is not accurate to describe it as part of their “earnings.”

In addition, overall labor costs at Ford, GM and Chrysler were dramatically lowered by mid-contract changes in 2005 and the 2007 UAW labor agreement. As a result of major changes in retiree health care, lower wages for newly-hired workers, and other contract concessions, the labor cost gap between domestic and foreign nameplate producers will be nearly or completely eliminated. One independent analyst has projected that GM could soon have lower labor costs than Toyota. (*Detroit Free Press*, January 13, 2008)

Q: Do labor cost make up the majority of the cost of producing a vehicle?

A: No. Labor costs are about 10% of the costs of producing a vehicle. The other 90% includes research and development, parts, advertising, marketing and management overhead.

Q: But aren't labor costs going up every year, creating an additional burden for Ford, GM and Chrysler?

A: No. As noted above, contract concessions in 2005 and 2007 have actually *decreased* labor costs at the domestic automakers.

In 2005, for example, UAW members agreed to forego a 3% wage increase to contribute to the cost of health care, and health care benefits were modified for retirees. In 2007 wages for new hires were reduced by half, and new hires were excluded from the traditional retiree health care and defined benefit pension plans.

Also, in 2007 the UAW and the auto companies reached a landmark agreement that transferred retiree health care liabilities from the companies to an independent VEBA fund. The changes in the 2005 and 2007 contracts reduced the companies' liabilities for retiree health care by 50%.

Q: Are the legacy costs at Chrysler, Ford and GM so high because of rich pension and retiree health care benefits?

A: No. The main reason that Chrysler, Ford and GM have higher legacy costs than the foreign nameplate operations in the U.S. is not because their retiree benefits are much higher. It's because they have so many more retirees. Because the domestic auto companies have been operating in this country for many years, they have large numbers of retirees. But the foreign nameplate operations only started operating in this country 25 years ago, and therefore have very few retirees.

In addition, the overwhelming majority of retirees from Toyota, Nissan, Honda, BMW and Mercedes live in countries where national health systems spread the costs of providing health care across the entire societies. The real solution to the high health care costs which burden all American employers – not just automakers -- is the enactment of national health care reform.

In the negotiations with the domestic automakers in 2007, however, our members realized that we could not wait for the government to act. We took action ourselves, addressing retiree health care costs by establishing an independent trust – called a Voluntary Employee Beneficiary Association (VEBA) - that will take over the companies' obligations for providing retiree health care benefits.

Q: How is the VEBA funded and what impact will it have on company costs?

A: The VEBA will save GM, Ford and Chrysler billions of dollars by assuming full responsibility for retiree health care costs. It is funded by employer and employee contributions, including wage deferrals and modified retiree benefits.

Q: Have the UAW “Jobs Bank” and other job security measures prevented domestic auto companies from “rightsizing” their workforce?

A: No. As a result of decreasing market share, each of the domestic companies has sharply reduced its workforce. Five years ago, there were approximately 300,000 UAW members working at Chrysler, Ford and GM; today, that figure has been reduced by half, to fewer than 150,000.

The “Jobs Bank” concept was pioneered by Japanese auto companies, who have had a no layoff policy in place for many years. The policies currently in place at Honda and Toyota, which pay workers full salary for an indefinite period, are more generous than job security programs in UAW-negotiated contracts.

With 4,500 workers earning their full paychecks while its San Antonio truck plant was idle this summer, **Toyota had more workers in its version of the “Jobs Bank” at a single plant than Chrysler, Ford and GM currently have in all of their factories put together.**

<http://www.usnews.com/blogs/the-inside-job/2008/8/26/toyota-refuses-to-lay-off-workers.html>

Q: Do union work rules make domestic companies less efficient than their non-union competitors?

A: No. According to the latest data from the *Harbour Report*, an independent study of factory efficiency, **nine of the ten most efficient auto assembly plants in North America are union plants**, represented by either the UAW or the Canadian Auto Workers. (*Harbour Report* 2008, Media presentation, available at <http://www.oliverwyman.com/ow/automotive.htm>)

In addition, when factories are compared by vehicle segments – a compact car plant vs. a compact car plant, a pick-up truck plant vs. a pick-up truck plant – union plants are scored as the most efficient in eight out of nine vehicle segments.

The *Harbour Report* measures the number of person hours required to assemble a vehicle. The results noted above would not be possible if union work rules caused “bloated” or inefficient operations on the factory floor.

Q: Since Chrysler, Ford and GM have closed most of their plants outside of the Midwest in recent years, won’t the effects of the auto crisis be confined to just a few Midwestern states?

A: No. The U.S. auto industry remains a national industry, purchasing hundreds of billions of dollars of goods and services from large and small companies in every state of the union.

The failure of the domestic auto companies would cause a domino effect that could lead to the loss of as many as **3 million American jobs**. Workers at thousands of small, medium and large businesses are at risk, including those

who work at auto suppliers, auto dealers, steel manufacturers, glass manufacturers, tire companies, and many others.

The failure of the domestic automakers will lead to the failure of numerous supplier companies, who will be unable to function without business from one or more of their principal customers. Because of the interlocking automotive supply chain, this means that all automakers – domestic and foreign-based – will be confronted with a lack of parts and supplies. The inevitable result will be a catastrophic drop in overall U.S. industrial production at a time when the U.S. economy is already in the middle of a severe economic downturn.

More than one million retirees, their spouses and dependents receive pensions and health care from Chrysler, Ford and GM. In the event of a failure of the domestic automakers, the retirees will face cuts in their pensions and will lose their health care benefits. About forty percent of the retirees are under 65 and ineligible for Medicare, and thus could join the ranks of the uninsured.

In addition, the cascade of business failures that would result from the collapse of the domestic automakers would lead to the cancellation of pension plans for hundreds of thousands of workers at smaller companies, causing a severe strain on the federal pension insurance program.

The loss of so many employers and workers would also cause a precipitous drop in federal state, local tax revenues, at a time when all levels of government are already struggling with budget shortfalls and increasing demand for services.

The U.S. economy is already facing a deep, long recession. The loss of one or more major automakers would cause additional instability, job loss and business failures. This could turn the current recession into a depression, and delay any economic recovery for an indefinite period of time.

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