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UAW Workers Actually Cost the Big Three Automakers \$70 an Hour

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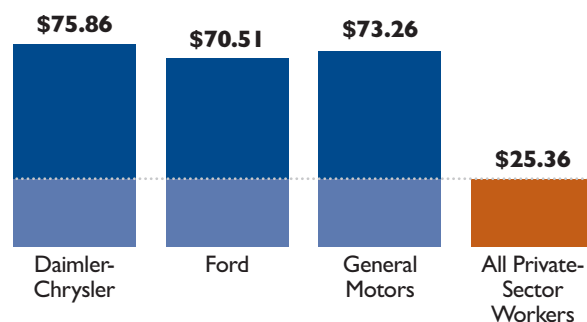
The United Auto Workers (UAW) wants Congress to bail out General Motors, Ford, and Chrysler to prevent their undergoing restructuring in bankruptcy proceedings. In bankruptcy, a judge could order union contracts to be renegotiated to reflect competitive realities. Many analysts have objected that hourly autoworkers at the Big Three are some of the most highly paid workers in America, costing the Big Three over \$70 an hour in wages and current and future benefits. All taxpayers should not be taxed to preserve the affluence of a few.

Some observers argue that UAW members do not actually earn this much.¹ They argue this figure includes the cost of benefits paid to current retirees as well as wages and benefits paid to current workers and that the actual hourly earnings of current UAW members are much lower. This is a mistaken interpretation of the financial data released by the Detroit automakers.

Cash Compensation. Chart 1 shows the average hourly compensation for UAW workers and the average compensation for all private sector workers. These figures are based upon calculations by the Detroit automakers themselves as published in SEC filings, their annual reports, and other materials. According to briefing materials prepared by General Motors, “The total of both cash compensation and benefits provided to GM hourly workers in 2006 amounted to approximately \$73.26 per active hour worked.”

UAW workers are highly paid, but not all this compensation comes as cash wages. Breaking the

Detroit Automakers Have High Average Hourly Labor Costs



Sources: DaimlerChrysler Corporation, Chrysler Labor Talks '07, "Media Briefing Book," p. 37, at http://chryslerlabortalks07.com/Media_Briefing_Book.pdf; Department of Labor; Bureau of Labor Statistics, "Employer Costs for Employee Compensation," Table 5: Private Industry Workers by Major Occupational Group, at <http://www.bls.gov/NCS> (November 18, 2008).

Chart 1 • WM 2162 heritage.org

\$73.26 figure down, General Motors reports that it pays base wages of roughly \$30 an hour. At the end of December 2006, the average vehicle assembler at GM earned \$28.02 an hour; the average machine repair electrician earned \$32.43.²

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2162.cfm

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Other provisions raise cash earnings above this base pay. For example, workers at Ford earn 10 percent premium payments for taking midnight shifts and double time for overtime hours worked on Sundays.³

Autoworkers put in substantial overtime hours at higher rates, raising earnings above their base pay. GM reported that its average hourly employee worked 315 overtime hours in 2006. Including all monetary payments—base wages, shift premiums, overtime pay, as well as vacation and holiday pay—GM reported an average hourly pay of \$39.68 an hour in 2006.⁴ About 54 percent of the average UAW employee at GM's earnings came in cash in 2006.

Earned Benefits. The remaining \$33.58 an hour of hourly labor costs that GM reports—46 percent of total compensation—was paid as benefits. These benefits include:⁵

- Hospital, surgical, and prescription drug benefits;
- Dental and vision benefits;
- Group life insurance;
- Disability benefits;
- Supplemental Unemployment Benefits (SUB);
- Pension payments to workers pensions accounts to be paid out at retirement;
- Unemployment compensation; and
- Payroll taxes (employer's share).

These benefits cost the Detroit automakers significant amounts of money. Critics contend that

these benefit figures include the cost of providing retirement and health benefits to currently retired workers, not just benefits for current workers. Since there are more retired than active employees this makes it appear that GM employees earn far more than they actually do.

This contention contradicts the plain meaning of what the automakers have reported in SEC filings and in their public statements and would be contrary to generally accepted accounting principles.

Under the accounting rules established by the Financial Accounting Standards Board, the Detroit automakers must report their liability for future benefits as they accrue.⁶ The hourly benefits figure includes payments into defined benefit pension plans to provide future pensions to current workers. It also includes the estimated costs of future retirement health benefits that current workers earn today.

Chrysler, for example, reports paying \$20.14 an hour in health costs for its hourly employees. That figure includes the estimated cost of their health benefits in retirement, calculated according to Financial Accounting Standard 106.⁷ The government does not allow Chrysler to promise to pay tens of thousands of dollars in health benefits in the future without reporting that cost on its balance sheets today.

Excludes Legacy Costs. The hourly benefit figures the Detroit automakers report covers the cost of current and future benefits earned by actively working employees. It does not include the cost of paying health benefits and pensions to current retirees.

1. See Media Matters, "Media Still Wedded to \$70+ Per Hour Autoworker Falsehood Despite GM's Recent Statements to the Contrary," December 6, 2008, at <http://mediamatters.org/items/200812060002> (December 8, 2008).
2. General Motors, Inc., "GM Manufacturing and Labor Resources, Media Handbook," p. 29, at http://www.media.gm.com/manufacturing/handbook/other_benefits.pdf (December 8, 2008).
3. Ford Motor Company, "2007 UAW-Ford National Negotiations Media Fact Book," p. 49, at http://media.ford.com/pdf/07_UAW_Negotiations.pdf (December 8, 2008). GM and Chrysler Pay Similar Overtime Premiums.
4. General Motors Inc., "GM Manufacturing and Labor Resources," p. 28.
5. *Ibid.*
6. The December 15, 1992, FASB Statement of Accounting Standard No. 106 has required companies that provide post-retirement benefits to recognize the future costs of those benefits in advance. Thus, the cost of labor includes the calculated present value of future retirement benefit outlays. See David Langer, "Planners Cope with SFAS 106. (Statement of Financial Accounting Standard) (Personal Financial Planning)," *CPA Journal*, December 1992.
7. DaimlerChrysler Corporation, "Chrysler Labor Talks '07: Media Briefing Book," p. 41, at http://chryslerlabortalks07.com/Media_Briefing_Book.pdf

Before they requested a bailout, the Big Three automakers specifically explained that their labor cost figures do not include the cost of past work. General Motors states in its filings with the Securities and Exchange Commission that:

GM maintains hourly and salaried benefit plans that provide postretirement medical, dental, vision, and life insurance to most U.S. and Canadian retirees and eligible dependents. The cost of such benefits is recognized in the consolidated financial statements during the period employees provide service to GM.⁸

In other words, GM records the expense for retiree benefits when workers earn the benefits, not years later when they collect their benefits. In less technical language, Ford explains that their total average hourly labor costs include:

(1) All the dollars paid to employees, (2) the cost of contractual benefits for employees, and (3) the cost of statutory payments, such as Social Security and Workers' Compensation—all calculated on the basis of hours worked by employees.⁹

Average hourly costs include the costs of wages and benefits (current and future) to employees divided by the number of hours worked by those same employees. It does not include the benefits paid to retirees.¹⁰ This is in accord with standard accounting principles that require the Big Three to report their costs as they occur. Labor costs are the costs to the Detroit automakers of employing its current workers, not paying former workers for services performed decades ago.

Retirement Benefits Alone Cost \$31 an Hour. The argument that retiree pension and health ben-

Detroit Automakers Have Similar Labor Costs Despite Different Retiree Ratios

2006 figures

	Daimler-Chrysler	Ford	General Motors
Average Hourly Compensation	\$75.86	\$70.51	\$73.26
Retiree-to-Worker Ratio	2.0	1.6	3.8

Sources: Heritage Foundation calculations based on data from DaimlerChrysler Corporation, "Chrysler Labor Talks '07: Media Briefing Book," at http://chryslerlabortalks07.com/Media_Briefing_Book.pdf (December 8, 2008); Ford Motor Company, 2007 UAW-Ford National Negotiations Media Fact Book, at http://media.ford.com/pdf/07_UAW_Negotiations.pdf (December 8, 2008); General Motors IRS Form 5500 filed for the General Motors Hourly-Rate Employees Pension Plan. The plan is for calendar year 2005 and covers dates from October 1, 2005, to September 30, 2006.

Table 1 • WM 2162  heritage.org

efits inflate the hourly labor costs of the Detroit automakers cannot withstand basic scrutiny. For instance, General Motors UAW retirement plan paid \$4.9 billion to 291,000 retirees and surviving spouses in 2006.¹¹ That works out to \$31.04 an hour when apportioned among active workers.¹² That figure accounts for virtually all GM's benefit costs—before accounting for health care costs, disability benefits, supplemental unemployment benefits, or any of the other benefits GM provides. GM pays too much in retirement benefits to have labor costs of only \$70 an hour if that figure included benefits to current retirees.

Labor Costs Similar Despite Retiree Differences. The Detroit automakers pay similar wages at each company despite having very different numbers of retirees to provide for. Table 1 shows the

8. General Motors Corp., Securities and Exchange Commission Form 10-K for the Year Ending December 31, 2006, note 19, page 153, at <http://www.sec.gov/Archives/edgar/data/40730/000095012407001502/k11916e10vk.htm> (December 8, 2008).

9. Ford Motor Company, "2007 UAW-Ford National Negotiations Media Fact Book," p. 8.

10. Heritage Foundation analysts contacted a spokesman for Ford Motor Company by phone. The Ford spokesman verified that average hourly labor costs excludes the cost of benefits paid to current retirees.

11. General Motors, Inc., Form 5500 filed with the IRS and Department of Labor, Schedule H, for the 12 months ending September 30, 2006.

12. Heritage Foundation calculations based on General Motors Form 5500 data. The figure is the \$4.88 billion paid out to retired workers divided by 85,000 active hourly workers in the pension plan, each working 35.5 hours a week for 52 weeks in a year.

average hourly labor costs for the Big Three and the ratio of retirees to active workers at each company. General Motors has far more retirees per active worker than Ford or Chrysler. For each active worker at GM, there were 3.8 retirees or dependants in 2006. At Chrysler this ratio was half as much: two retirees for each worker. At Ford there were only 1.6 retirees per worker. If the hourly labor costs included retiree benefits, hourly wages at GM would be much higher than at either Ford or Chrysler.

But this is not the case. General Motors did not have the highest hourly labor costs despite having more retirees. Chrysler paid \$2.60 an hour more in labor costs in 2006 than GM did. Ford paid only \$2.75 an hour less than GM did, despite having half as many retirees relative to workers to provide for. All three automakers had roughly the same hourly labor costs despite having very different numbers of retirees to provide for. Hourly labor costs account for the expense of providing wages and benefits to current workers but do not include legacy costs.

Taxing the Many to Pay the Few. UAW spokespeople have roundly condemned the estimate of labor costs in excess of \$70 per current worker hour. They assert these figures include the cost of current retiree pension and health benefits. They have done so, however, without marshalling evidence to support their case.

The Detroit automakers explain in their SEC filings that their benefit expenses are for current workers, not former employees. This is because they follow generally accepted accounting principles in preparing these estimates. If the figures did include current retiree benefits, the average hourly amount would be much higher than they actually report. UAW employees earn far more than most Americans do. Congress should not tax all Americans to bailout the Detroit automakers in order to preserve high earnings for a few.

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