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How Much do Autoworkers *REALLY* Make?

Surprise: It's *NOT* $75 Per Hour!

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Summary

Contrary to misleading statistics cited in recent debates about the future of the North American auto industry, Canadian autoworkers do not "earn" $70 or more per hour. Production workers in CAW-represented auto plants start work at $24 per hour, growing to ***$34 per hour at full seniority***. The cost of current pension, health, and other benefits adds less than $10 per hour to that (on the basis of a normal working year). ***True compensation for autoworkers, therefore is less than $45 per hour.***

The higher cost estimate circulated in some public debates reflects a very different concept from wages or compensation. This concept is known as "all-in labour cost per hour." It is a statistical measure, relatively unique to the auto industry, which captures the effect of ***all*** labour-related expenses (even non-compensation costs such as payroll taxes paid directly to government, and the costs associated with downtime and layoffs), calculated relative to the number of hours actually worked in the course of a year.

All-in labour cost per hour differs from compensation for several reasons which are outlined in this paper. The table below summarizes the key sources of the difference between wages ($34 per hour), compensation (under $45 per hour), and all-in labour costs. In the wake of the recent agreement between CAW and General Motors Canada, all-in labour costs in CAW-represented auto assembly and powertrain facilities is between $60 and $65 per hour (depending on the amount of downtime and layoffs experienced in the course of a year).

Wages, Compensation, and All-In Hourly Cost ***CAW Auto Workers, After 2009 CAW-GM Contract***	
Hourly wage	**$35**
Hourly value of non-wage benefits	$8-9
Normal Hourly Compensation	**$43-44**
Overtime and shift premiums	$3
Cost per hour worked of paid time off	$8-9
Impact on hourly cost of layoffs & downtime	$1-3
Cost per hour worked of SUB	$1-3
Statutory taxes	$3-4
All-in Active Hourly Labour Cost	**$60-65**
Source: CAW Research from company reports and Statistics Canada data. Normalized on 1800 hours of work performed per year.	

Introduction

One enormous myth that has been propagated (sometimes innocently, sometimes not) in recent debates over the future of the auto industry is the false notion that auto workers "make" $75 or more per hour.

CAW-represented production workers in the major auto plants are paid a starting wage of about $24 per hour. This grows (as they earn seniority) to a maximum of $34 per hour. Skilled-trades specialists (in electrical, machining, tool, or related trades) earn up to $40 per hour.

So where does the idea come from that auto workers make over $70 per hour?

That claim is based on a concept that is very different from someone's hourly wage. It is not even equal to someone's total compensation. The concept referenced in those statistics is a measure called "***all-in hourly labour cost***." And given the controversy that's been generated regarding the subject of autoworker wages in recent months, it's important to understand what we're talking about. To do this, we'll start with the basic hourly wage, and then "build up."

As noted, a top-seniority CAW production worker receives an hourly wage of about $34. If we include the proportion of skilled trades workers in the overall workforce, this produces a weighted average hourly rate of $35. Measured over a standard 52-week year (working 40 hours per week), this implies an annual income of over $70,000.

Non-Wage Benefits

A worker's total compensation, of course, includes the non-wage benefits which they also receive. For CAW members, the value of these benefits includes the following programs:

- Annual bonuses (CAW members at the Detroit Three no longer receive these).
- Pensions (current service costs equal to about $5000-6000 per active worker per year).
- Current health benefits (such as vision, dental, prescription coverage, and other supplementary health benefits, which cost about $4000 per employee per year – including coverage for their families).
- Other benefits (including life insurance, legal services, tuition and childcare subsidies, the expected cost of future non-pension retiree benefits, and a range of other smaller benefits, which together cost around $8000 per year on average).

Together, these non-wage benefits are worth perhaps $18,000 per worker per year. Over a normal 2080-hour working year, these non-wage benefits therefore add under $9 per normal working hour (or a little bit more than 25%) to each worker's compensation. That makes for total "true" compensation of about $44 per hour. That's good compensation, for sure – but not remotely close to $75.

Overtime and Shift Premiums

Occasionally companies will require their workers to stay overtime, beyond normal working hours. Overtime is worked ins response to surges in consumer demand, to make up for production problems or bottlenecks, or in some cases because employers have decided it's cheaper to work its existing staff extra hours than to hire new workers. In every case, it is the employer's choice when overtime is worked.

Workers required to work overtime are paid a wage premium (usually 50%) for those hours. To a large extent (depending on the specific hours involved), overtime pay is mandated by labour law (although a labour contract can require overtime to be paid in some circumstances when it is not legally required).

In addition, in the auto industry and other manufacturing settings, it is standard practice to pay a shift premium for workers who staff evening and night shifts. (In CAW-represented auto plants, there is a 5% premium paid for evening shifts, and a 10% premium for overnight shifts, to reflect the added stress on family life of those working hours.)

Is the overtime premium part of one's "hourly wage"? Few Canadians would conceive it that way – although those working overtime certainly appreciate the extra money. And remember: overtime is something that occurs because ***employers*** desire it.

According to Statistics Canada, in 2007 (most recent data), auto assembly workers in Canada worked an average of about 3.5 hours of overtime per week. This increased total average wage payments (weighted across all hours worked in the year) by around $2. Shift premiums added, on average, about another dollar per hour.

Determinants of Hours Actually Worked

Now here is where it starts to get more complicated. "All-in hourly labour cost," in the auto industry, is ***not*** calculated by dividing total compensation by the number of normal working hours in a year (as we have done above: 40 hours per week times 52 weeks in a year equals 2080 working hours in a year). Instead, all-in hourly labour costs are calculated over a much smaller base of hours. Total compensation costs are divided by the numbers of hours ***actually worked*** in a

year. Actual hours worked, the denominator of this fraction, differs from the number of standard working hours in a year (2080) for several reasons:

- Paid time off (for vacation and holidays)
- Sick leave (CAW autoworkers do not receive any pay during the first days of an illness, after which they are compensated under a sickness and accident insurance scheme)
- Time not worked due to layoffs or downtime

It is simple mathematics that the lower is the number of hours actually worked, the higher is the apparent "all-in hourly labour cost."

The CAW has placed great emphasis over the years on negotiating more paid time off, as a deliberate strategy to try to protect employment levels against the effects of technological change and productivity growth, and to provide for needed time away from the physical and mental stresses of assembly line work. However, in recent contracts the amount of paid time off has been reduced by 80 hours per year (in the face of intense cost-cutting pressure from the employers). Today a CAW production worker with maximum seniority (over 20 years) qualifies for 6 weeks of paid time off (for vacation, scheduled mandatory vacation or "SPA," and personal leave). A new hire qualifies for 2 weeks (the legal minimum). A worker with 5 or more years seniority qualifies for 4 weeks.

Holidays (including regular statutory holidays and a week-long Christmas shutdown) reduce working time by another 15 days per year.

Paid time off can be considered a form of compensation. It can also be considered a basic human and labour right – one that workers have fought for over the centuries, and that is essential to the quality of life of working people and their families. Of the paid time off received by CAW autoworkers, about half is required by law. The rest reflects additional time negotiated by the union.

I doubt, however, that many Canadians consider their paid time off as part of their hourly ***wage***. They conceptualize it separately, as ***time***. Someone who earns $15 per hour, but is allowed to take a total of five weeks off per year (3 weeks vacation, and 10 days of statutory holidays), actually earns $16.60 for each hour they work (assuming they had no other time off the job for illness or layoff). But I have never heard someone adjust their hourly pay in that manner to reflect their entitlement (legal and otherwise) to paid time off.

According to the methodology of all-in hourly labour cost, paid time off (since it reduces the denominator over which all-in labour costs are calculated) directly increases all-in hourly labour costs. Each week of paid time off (including the two weeks of vacation required per year under Canadian law, and the roughly two weeks of statutory holidays also required by Canadian law) translates into a roughly 2% increase in hourly labour cost.

The Impact of Downtime and Layoffs

Even more far-fetched is the notion that time away from work resulting from illness, layoff, or plant shutdown should also be reflected in your "hourly wage." Time off due to illness or layoff is not a contractual benefit; it is clearly beyond the control of both workers and their union. Suppose that workers are laid off for 8 weeks in a year because of slow sales. This reduces annual hours worked by 320 hours. That's a reduction of as much as 20% in hours worked (after adjusting for paid time off) – causing a corresponding increase in the apparent hourly cost of fixed annual benefits (like the pensions, health premiums, and other benefits listed above). Based on the level of benefits described earlier, this amount of downtime (not unusual given recent experience) would add $3 per hour to all-in costs. A longer six-month layoff would add over $10 to the all-in hourly cost!

This seems like a double penalty: first workers experience the income loss and insecurity of being laid off for significant amounts of time. And then they are "charged," in the form of a higher apparent "wage," for the fact that they didn't work for the complete year.

Differences in the number of hours worked account for a significant portion of differences in the all-in hourly labour costs between different companies. Chrysler Canada's all-in labour cost calculation for 2008 (which has been widely debated in the course of current restructuring discussions) was based on a very low average level of hours worked per worker that year (just 1550 hours). That was significantly lower than the number of hours worked per worker at GM and Ford that year – and far, far lower than average hours worked at Toyota and Honda plants (which until recently have been running flat out). This difference in assumed hours worked accounts for about $2 per hour in all-in labour cost differences between Chrysler and the other two North American producers in Canada. ***And it accounts for $4 or more per hour of the all-in hourly labour cost differences between Chrysler and the non-union Canadian facilities***.

Is a worker really "more expensive" because he or she didn't work the full year, due to downtime associated with slow sales? Not really. This is not an issue of ***compensation***. This is an issue of ***capacity utilization*** – a variable which is clearly a responsibility of management to optimize, and is beyond the control of workers and their union.

There's a second way in which layoffs and downtime translate into a higher hourly all-in labour cost. Over the years auto unions have negotiated a range of income security programs to protect against the effects of the layoffs (which are regularly incurred in the auto industry due to market swings, new model launches, and other factors inherent to the auto industry). These are called

supplementary unemployment benefits (SUB), and they top up the benefits received from public unemployment insurance programs.

SUB costs are incorporated into all-in labour cost by attributing them to the hours which were actually worked (by those workers who were ***not*** laid off). Are SUB benefits a form of compensation? Yes, in a form. But it is not compensation received by the ***workers who are still working***. SUB benefits are received by the workers who are laid-off (as a partial compensation for the cost they incur as a result of the lay-off). And by far the best way to reduce labour costs, in this context, is to put autoworkers back to work: they enjoy more income and security, the company pays out less SUB costs, and the cost per hour worked of all other benefits declines by several dollars.

Because of the extensive downtime experienced in most auto plants in recent years, SUB and related programs can add $3 or more to all-in hourly labour costs in CAW facilities. Until now, Toyota and Honda plants have not experienced layoffs, thanks to more favourable market trends (that are hardly within the power of individual workers). This translates into a two-fold benefit to Honda and Toyota: higher hours per worker per year (and hence lower costs per hour for benefits and other fixed items), and no SUB payments. Now that Toyota and Honda plants are also experiencing downtime, this may start to change. However, the practice at these companies, so far, has mostly been to keep excess workers on the payroll even when they are not needed (as part of a tradition of "permanent employment"). In this case a downturn in sales does not have the same negative impact on reported all-in hourly labour cost (since paid hours are maintained, even though actual work has diminished, and no SUB benefits are paid) – even though it translates into substantial costs for the employer. In fact, the cost of keeping excess workers permanently "on the job" (but doing nothing) is significantly higher than the cost of paying SUB benefits to laid-off workers. But thanks to the peculiarities of the all-in hourly labour cost measure, this cost is not captured in an all-in hourly cost comparison between Honda and Toyota, on one hand, and the Detroit Three on the other.

Combining both effects of downtime (fewer hours worked, and extra costs for SUB benefits), the mere fact that CAW plants have experienced more downtime increases their apparent all-in hourly labour costs by $5 or more relative to the facilities of Honda and Toyota. Again, this does not reflect more generous compensation, in the commonly-understood sense of that word. It reflects the loss of business for North American producers – which in turn reflects much broader market, economic, and trade policy issues that are well beyond the workers' influence.

Taxes and Statutory Costs

The all-in hourly labour cost methodology also considers various employment-related taxes paid by employers to governments. In Canada, these statutory costs include four major items:

- Employer CPP premiums (up to a maximum of about $2050 per year)
- Employer EI premiums (up to a maximum of about $1000 per year)
- Employer Health Tax (equal to about 2% of earnings)
- WSIB premiums (variable rates, usually about 3% of earnings)

These government payments amount to around $3-4 per normal working hour in Canadian auto plants. (This does not include taxes paid by workers, which are deducted from their wage income noted above. It is ironic, perhaps, that ***employers'*** tax payments are counted against ***labour*** costs – yet workers' ***own*** tax payments come out of their ***own*** pocket!)

The capped benefits (such as CPP and EI) will cost more or less per hour, depending on the number of hours actually worked in the year.

These tax payments, while they fund important public programs, obviously do not constitute compensation for workers.

"Legacy" Costs

Perhaps the most incredible distortion associated with the all-in hourly labour cost methodology is the inclusion of various costs (some of them actual monetary expenses, but many of them non-cash expenses) associated with work that was performed in the past. Most of this past work, obviously, was performed years ago by people who have since retired. Some of the legacy cost, however, reflects past work completed by today's current workforce (reflecting their already-earned entitlements to pensions and other retirement benefits). These so-called "legacy" costs fall into two main categories:

- Unfunded pension costs. In theory, a pension benefit should be pre-funded through the company's investment of current service pension premiums in a pension fund. In practice, the company can experience additional pension-related expenses (or savings) down the road, long after the current work has been performed, depending on financial returns, interest rates, and changes in actuarial assumptions (such as life expectancy, expected future growth of earnings, etc.). These changes can cause the future expected liabilities associated with a pension promise to rise or fall dramatically from one year to the next. These changes, not associated with the work of current employees, show up as changes in "legacy" costs.

- Retiree health benefits. Auto companies (like many other employers) make certain promises regarding the provision of certain supplementary health benefits (and other benefits, such as life insurance) after retirement. There is

no system in Canada yet to allow for the pre-funding of these benefits (in the same manner that pension benefits are pre-financed through contributions to a pension fund). They are thus paid from the future revenues of the companies (which makes this kind of benefit entirely vulnerable in cases of bankruptcy). In the U.S., in contrast, retiree health benefits can be pre-funded through the VEBA system. In Canada, without any mechanism for pre-funding, retiree health benefits are fully a "legacy" cost.

We can imagine retiree health benefits having a "current service" portion, similar to the current service cost of pensions – which reflects the actual ongoing cost associated with the fact that each hour of work takes a worker one hour closer to becoming entitled to those post-retirement benefits. In Canada, those current service costs of post-retirement health benefits amount to under $2 per hour worked. This cost can be rightly included in the "active" labour costs of a current employee (just as we included the current service pension cost in total compensation above).

Legacy costs are dominated, however, not by these current service expenses, but by big swings in the valuation of the accumulated liability costs associated with pension and retiree health benefits accumulated as a result of previous work. These swings can result from changes in financial returns, interest rates, and actuarial assumptions. Alternatively, the under-funding of pension plans (resulting from either corporate irresponsibility or lax government rules) can also impose large "legacy" cost obligations on future years. Some of these "legacy" costs are reflected in actual cash payments (for example, the cash expense of retiree health benefits actually used in a given year). But most are non-cash charges reflected on a company's financial statements (in order to account for the future burden of those expenses).

Ideally, the cost of post-retirement benefits (both pensions and health benefits) would be fully reflected in ongoing current service expenses (premiums paid into pension funds, or into a retirement health fund like a VEBA), and legacy costs would not exist. In practice, swings in funding status, accounting practice, and actuarial assumptions can create new costs (or new savings).

It is hardly reasonable, however, to measure these costs relative to the number of hours actually worked in any given year. Legacy costs reflect remaining unpaid expenses resulting from the fulfillment of contracts for work that was performed long ago – mostly by people who no longer work for the company. To have those expenses included within what is interpreted as a measure of current labour expenses is entirely inappropriate. (Major employers, such as General Motors, accept this logic and do not report their legacy costs on a misleading dollars-per-hour basis.)

This problem has become especially acute as a result of the dramatic downsizing of production and employment by the North American automakers in recent

years. Legacy costs are invariable with respect to current production (since they are determined by the amount of work performed in the past). An increase or decrease in current hours of work, therefore, will translate directly into an increase or decrease in legacy costs measured per hour of active work. Cutting current employment in half, therefore, leads to an immediate doubling of legacy costs per hour – not because those costs have become more expensive, but solely because the denominator has been reduced (a factor that is obviously beyond the control of the workers and their union). This is by far the main reason that legacy costs have become so "large" in recent years: not because the costs themselves have grown, but because the amount of work still performed in the industry has shrunk so much.

It is inappropriate to measure legacy costs in terms of current hours of labour. Legacy costs are a fixed debt (owed to the people who performed work in the past). We don't measure a company's other debts (such as aggregate amounts owed to banks, bondholders, or other creditors) in "dollars per hour" terms, and legacy costs should not be measured that way either.

The legacy cost issue dramatically affects comparisons between the Big Three operations and non-union facilities in Canada.

Conclusion

Auto production workers (at the top of the pay scale) make a weighted average of $35 per hour in wages. The actual cost of their non-wage benefits is under $9 per hour. Their total compensation is approximately $44 per hour.

In addition, autoworkers receive a relatively generous allowance of paid time off the job. Paid time off (about half of it legally mandated, the rest bargained) increases the apparent cost of each hour of labour actually performed by around $8 (for high seniority workers).

Autoworkers are also subject to layoffs which have been all too common in recent years. Layoffs and downtime can increase the apparent cost of labour (per hour actually worked) by several dollars per hour, via both the decrease in the hours denominator and the expenses associated with SUB benefits.

Statutory expenses paid to governments total up to $4 per working hour.

The total of these various items is known as the *all-in active labour cost* of autoworkers, which is currently (in the wake of the recent CAW-GM contract) between $60 and $65 (depending on the amount of downtime experienced – which makes it difficult to predict all-in hourly costs, and impossible for workers and their union to control them).

These various steps in moving from an auto worker's hourly wage, to the measure of "all-in hourly labour cost" (which is, we repeat, ***not*** a measure of compensation), are summarized in the following table.

Wages, Compensation, and All-In Hourly Cost ***CAW Auto Workers, After 2009 CAW-GM Contract***	
Hourly wage	**$35**
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So-called legacy costs reflect payments owed to workers who have performed work in the past (to reflect contractually agreed benefits which were not fully paid by the employer at the time). These legacy costs can range between zero and hundreds of millions of dollars in any particular year, depending on swings in financial markets, interest rates, and actuarial assumptions. It is not relevant to measure legacy costs on a dollars-per-hour basis, given the large and arbitrary swings in those costs from one year to the next, and the arbitrary changes in active hours of work that continue to be performed.

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