# "HOW THE 2006 SPECIAL ATTRITION PROGRAM RESHAPED GENERAL MOTORS"

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Automotive firms have leveraged their demographic structure to respond to changing conditions, including reduced sales and market share. The market share for domestic automakers such as General Motors has fallen despite an increase in U.S. light vehicle sales from 14 million in 1990 to 16.5 million in 2007 (Wards Auto Online, 2008). This paper will examine how union and management work together to respond to such changing conditions.

Since 1999 when the workforce population was over 100,000, General Motors' hourly population has dropped to fewer than 65,000 at the end of February, 2009. Most of that decline occurred as the result of two successful Special Attrition Programs (SAPs), one offered in 2006 and one in 2008. Both programs were offered to all hourly employees and both were voluntary. Those programs were unusual in that regard because previously, early retirements and buyouts had only been offered in certain cases of plant closings. The academic literature finds that attrition programs are successful when done in response to production downturns (Cappelli, 2000).

This paper describes the Special Attrition Program offered to hourly employees in 2006 and examines its effects on the age and labor force composition of the hourly workforce at GM. It also examines the impact of this program on the factories' ability to operate after losing so many employees, many of them with 30 or more years of experience in the plants.

By 2005, GM's share of the U.S. automotive market had fallen from 28% in 2003 to 25.4%. Sales had declined and GM was losing revenue. In addition, the Delphi Corporation, which had been spun off from GM in 1999 but was still its largest parts supplier, had filed for bankruptcy. GM's financial obligations for Delphi included a commitment to hire 5000 former GM employees then working for Delphi (called "flowbacks").

In the fall of 2005, GM and its major union, the UAW, took major steps to reduce structural costs. In October, GM and the UAW negotiated a health care agreement that would save $15 billion. In November, GM announced plant closings and shift reductions to take effect by the end of 2008, some as soon as early 2006.

Then in March 2006, the UAW and GM announced a Special Attrition Program available to all GM employees. The SAP aimed for a substantially higher attrition rate than the normal 5 – 6% per year and offered incentives toward that goal.

To understand the design of the SAP, it is necessary to look at the demographics of the hourly workforce and the terms of the UAW-GM contract, as these were instrumental in the design. We examine the demographic characteristics first.

<u>Demographics of GM's 2006 hourly workforce</u>
In April 2006, GM had 110,000 hourly employees in 80 facilities in 29 states. These employees worked in vehicle assembly plants, metal stamping plants, engine and transmission (powertrain) plants, and parts warehouses. 55% of the workforce worked in assembly plants, which had 2,700 employees on average. Stamping and powertrain plants had somewhat less than half that number on average, and parts warehouses averaged fewer than 200 hourly employees. The workforce was heavily concentrated in the Midwest, with 68% in Michigan, Indiana, and Ohio.

GM's hourly employees are famously loyal to the company. This is in part due to the comparatively high wages. In April 2006, just over 60% of the workforce had been with GM for more than 25 years. It is common to find families with two or three generations of GM employees. And traditionally, many workers leave the company only when they are ready to retire.

Demographics of Hourly Workforce April 30, 2006

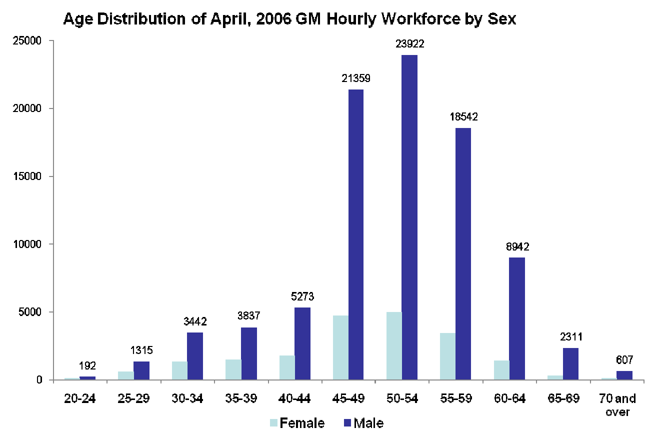


Figure 1 – The Age Distribution of the April, 2006 GM Hourly Workforce by Sex

Two impressions jump out from this graph. First, there are far more males than females in the hourly workforce. Females constituted only 18% of the population in April 2006. Second, this population is concentrated in the middle age groups, with 70% between the ages of 45 and 59.

Although not shown here, minorities (nonwhites) constituted 25% of the workforce.

UAW-GM Hourly Contract

The terms of the UAW-GM hourly contract were also instrumental in the design of the SAP. Of most relevance, the contract contained strong job security provisions. GM management could **NOT** simply eliminate surplus jobs. Workers could be "laid off" during slow production times, but they were still considered GM employees and their benefits were continued.

There is a saying that "seniority is everything" in the union. Higher seniority employees are less likely to be laid off, and they have more opportunity to take the most desirable jobs, which can be the least demanding jobs. This can have the effect of discouraging the most senior, who are also the oldest workers, from retiring, another factor that had to be considered in designing the SAP.

A third aspect of the contract, though, could have worked to encourage workers to retire. The UAW-GM contract was due to be renegotiated in 2007, and there was no guarantee that it would include retirement terms as favorable as the current contract.

A final contractual factor influencing the design was GM's defined benefit retirement plan. This is explained shortly.

GM management worked jointly with the United Auto Workers union to design a voluntary program that would be offered to all employees and result in a large reduction in the workforce. Normal attrition was not sufficient to take workforce down to the level that was needed. The resulting program was unique in that it was offered universally at all the plants and not targeted to particular plants, as in the past. Furthermore, the plan offered every employee at least one option.

GM's defined-benefit retirement plan

Under its defined-benefit plan, GM tracks a worker's age and years of company service. A worker cannot have many years of service at a very young age, as that is limited by the hiring cohort. Rather, an employee enters at the bottom left of this diagram, with no company service. Thereafter, each year an employee gains a year of age, and if working, a year of service. Once an employee becomes retirement eligible, he/she can retire at will. An employee must attain age 65, or age 60 with 10 years of service, or 85 "points", or 30 years of service to be eligible to retire. Over half of the workforce was already eligible to retire in April, 2006. (It is common for auto workers to work a bit longer than the minimum and retire in their early sixties.)

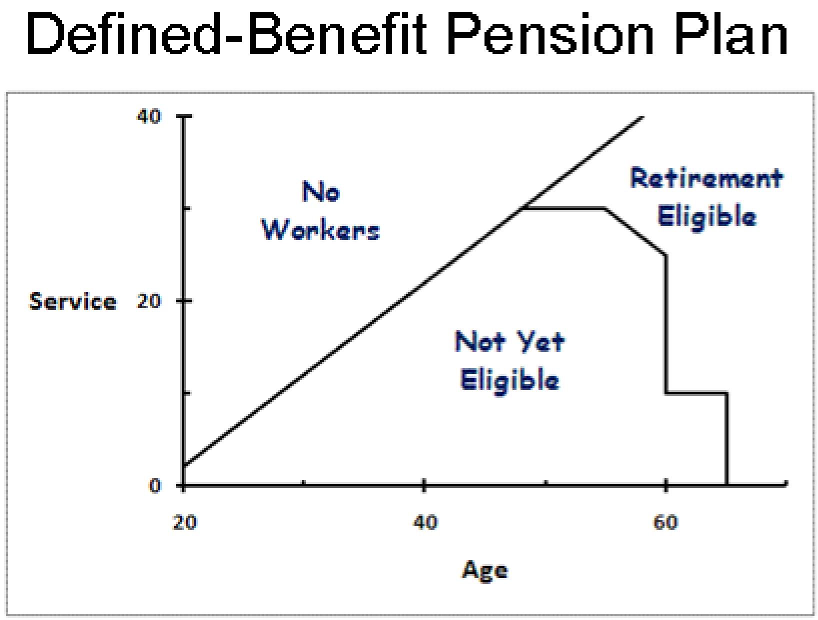


Figure 2 – The Defined Benefit Pension Plan

<u>The 2006 Special Attrition Program</u>

The Special Attrition Program presented workers with five choices:

1. Normal or voluntary retirement. If the employee were already eligible to retire, he or she got extra money ($35,000) to do so during the SAP.
2. Pre-retirement. A worker could pre-retire until reaching 30 years of service, if he or she already had 27 years of service (or 26 years at certain plants). Pre-retirement secured a normal retirement in the future for those who were not quite eligible at the time of the SAP. While pre-retired, employees received a monthly income and regular benefits but did not report to the plant.
3. Mutually-satisfactory retirement. People as young as 50 could take a mutually-satisfactory early retirement with no age-reduced benefits.
4. Buy-out. And anyone, no matter how young, could elect a buy-out instead of a retirement. Buy-outs quit before earning retirement, but kept any "deferred vested pension benefits".
5. Remain in the workforce and not accept a SAP offer.

Two of the options were notable. The pre-retirement option targeted employees close to retirement age but not yet eligible. The buy-out option drew a lot of attention because of the unusually generous cash amounts offered.

The implementation of the SAP was very labor-intensive. After GM and the UAW jointly announced the program on March 22, each one of the 110,000 hourly employees had to be made aware of the program. GM and UAW staff members jointly visited every plant to explain the program, and all employees received a packet with program details.

Employees had 45 days to decide whether to take an offer. Recognizing that employees were making what could be a momentous decision, GM and the UAW hired a consulting firm to help employees in their decision making. The pension plan administrator handled questions about options available to individual workers.

Decisions had to be made by June 23rd. The departure date was a separate decision. Employees electing the pre-retirement option had to leave by July 1. For others taking the SAP, plants decided their departure date, although employees had some discretion as long as they were gone by year-end.

<u>SAP acceptance rates</u>
The corporation had estimated that as many as 24,000 employees could accept a SAP offer, so it was surprised by the program's popularity. About 34,000 employees (31% of the workforce) accepted one of the options and elected to leave GM.

Many employees were eligible for more than one SAP option. In those cases, one option was expected to be more attractive if that person chose to leave. Managers called that the "preferred SAP option." "Take rate" is the proportion of people with a given preferred SAP option who took it (Table 1). We present some examples to explain.

First, consider a person already eligible for normal retirement. That person could either remain at work, or retire under normal retirement (option 1), or take the buy-out under option 4 and quit the company before retirement. If such a person wanted to leave, option 1 was expected to be their best choice, so we included that person under the normal retirement row in Table 1. We call that the employee's preferred SAP option.

Table 1 shows the percent eligible and the "take rate" by SAP option type. "Take rate" refers to the proportion of people with a given preferred SAP option who accepted it. Over half of the people who took the SAP took the normal retirement option.

Table 1 – Percent Eligible and "Take Rate" for Special Attrition Program Options

| Preferred SAP Option | % of population eligible for option | "Take Rate" |
|---|---|---|
| Normal retirement | 40 | 63 |
| Pre-retirement | 13 | 21 |
| Mutually satisfactory ret. | 11 | 8 |
| Buyout | 36 | 15 |

There were differences in acceptance rates ("take rates") by age (data available but not shown). The attractiveness of the SAP declined with age until ages 45-49 when a significant number of employees became eligible for a normal or early retirement or a pre-retirement offer.  At ages 65 and older, nearly 70% of that population left the company.

Females had higher take rates than males in every age category.  Overall, 34% of females took a SAP offer compared to 30% of males.

All the “take rates” are much higher than the normal attrition rate; in that respect, all options for the SAP were effective.

Effects of the SAP on the workforce demographics

Surprisingly, the large exodus of one third of the workforce had little impact on the demographics. Prior to the programs, the average age was 50.5, with the age range 50-54 as the modal category.  After the SAP, the average declined to 48.4, and the mode shifted down one category to 45-49.  There was no change in the percentage of the workforce between the ages of 45 and 59.  The percentage of workforce age 60 and older was reduced from 12% to 9% by the SAP.

The percentage minority remained at 25% of the hourly employee population. Similarly, there was almost no change in the geographical distribution of the workforce or in the percentage female.

Effects of the SAP on company operations

After the SAP, some plants needed workers to maintain production because so many of their people had left GM.  One ready source was the commitment to take “flowbacks” from Delphi.  Another source was transfers between plants.  In fact, over 2000 employees did transfer.  Finally, plants could hire temporary workers.

The Oklahoma City plant is an example of the impact of the SAP on plants.  This plant opened in 1979 so there were many employees eligible for the pre-retirement option (they had 27 years seniority).  Nearly one third of the workforce at Oklahoma City took this option.  Figure 3 shows the flows of workers relocated (at company expense) from the Doraville, GA and Oklahoma City plants, both of which were slated to close.  Many workers relocated to neighboring states.

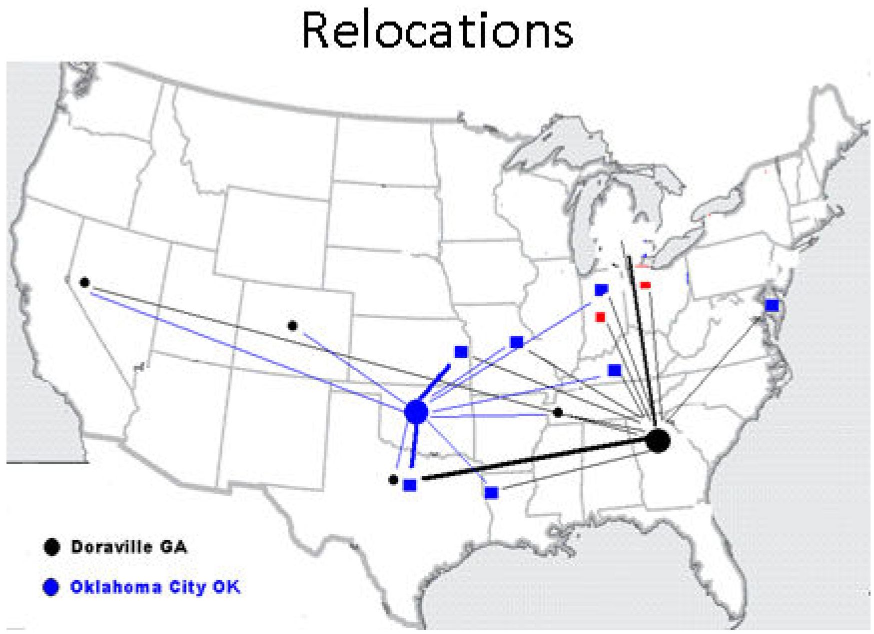


Figure 3 – Relocations from Doraville and Oklahoma City Plants

Conclusion

This case study has demonstrated that forces that have a major impact on population size do not necessarily have a big effect on that population's demographic structure. The Special Attrition Program of 2006 reduced GM's hourly workforce by 31% in six months. How does this compare to other demographic phenomena?

Wars are known to have a major impact on population size and structure. For example, Russia lost ten percent of its population in World War II and Poland lost 20% (Greenfield and Neugut, 1997). War losses primarily were reflected in the population pyramid as losses to men. Epidemics are another factor known to produce dramatic reductions in population size. The Black Death has been estimated to have killed 25-45% of Europe's population (Gottfried, 1983). Their effects on the population structure depend on the age pattern of the disease.

Of course, unlike wars and epidemics, the Special Attrition Program merely allowed those who wanted to retire or leave the organization to do so; in many cases, richer for making this decision.

In the literature about corporate restructurings (Gandolfi, 2008), the 2006 Special Attrition Program can be viewed as a voluntary separation plan. It had many unique and innovative features. For example, previous attrition programs in GM had been targeted to specific plants and sometimes to particular groups within those plants. This SAP was offered to all employees.

Prior incentive programs had also typically offered just one option, often a car voucher as an incentive to leave. The 2006 SAP offered four options. One of the options, pre-retirement, was a novel one for GM. It was specifically tailored to those employees at closed or closing plants who had more than 25 years of service but not enough to retire under the normal retirement plan. At one plant with a large number of employees with 26–29 years of service, nearly two-thirds of the workforce took a SAP offer, with just over 70% selecting the pre-retirement option.

GM took a risk offering such a program. Truck plants were adding production and needed employees. They could well have been faced with not having enough employees to produce an important product.

GM adapted to these changes by hiring flowbacks, hiring and training temporary workers, and relocating some workers transferred between plants. Similarly, the UAW adapted to having fewer dues-paying members.

The 2006 SAP posed major logistical challenges as well. Some Labor Relations staff members and UAW representatives had to spend the greater part of two months traveling to plants around the country to explain the program. With 110,000 employees, they could anticipate a constant stream of inquiries about the program. The database challenges were daunting.

This paper provided a rare opportunity to examine the union and management working together to allow the company to restructure in line with market conditions.

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