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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	Chapter 11
DELPHI CORPORATION, et al.,	:	Case No. 05-44481 (RDD)
Debtors.	:	(Jointly Administered)

DECLARATION AND EXPERT REPORT OF MICHAEL L. WACHTER
IN SUPPORT OF DELPHI'S MOTION FOR AUTHORITY TO REJECT COLLECTIVE
BARGAINING AGREEMENTS UNDER 11 U.S.C. § 1113(c) AND MODIFY
RETIREE WELFARE BENEFITS UNDER 11 U.S.C. § 1114(g)

I, Michael L. Wachter, declare and state as follows:

1. I submit this declaration and expert report in support of Delphi's Motion for Authority to Reject Collective Bargaining Agreements Under 11 U.S.C. § 1113(c) and Modify Retiree Welfare Benefits Under 11 U.S.C. § 1114(g). I have personal knowledge of the facts set forth in this declaration and, if called as a witness, could and would competently testify to all facts stated herein.

I. Qualifications and Assignment

2. I am the William B. Johnson Professor of Law and Economics and the Co-Director of the Institute for Law and Economics at the University of Pennsylvania. I have written extensively on matters of labor economics and law and economics. I have presented expert testimony on wage and benefit comparability issues on numerous occasions. These include testimony in the bankruptcy proceedings of Tower Automotive (March 2006), 10 appearances before interest arbitration panels on contract issues for the U.S. Postal Service from 1981 through 2001 and several instances when I have given testimony on compensation issues in the U.S. airline industry. The latter include an arbitration involving the flight attendants for American Airlines (1994), the Presidential Emergency Boards involving the mechanics at Northwest Airlines (2001) and the mechanics at United Airlines (2002), and bankruptcy proceedings for United Airlines (2005). I also submitted an affidavit for United Airlines in 2003.

3. I also served as the University of Pennsylvania's Deputy Provost from 1995 through 1998 and as Interim Provost in 1999. I was a Commissioner on the Minimum Wage Study Commission established by Congress in 1979. I have served as a consultant to numerous companies and government agencies on labor economics issues. In addition to the interest arbitration and court testimony described above, I have testified before Congress several times – most recently in 2003 in support of the President's Commission on the United States Postal

Service recommendation that the Postal Service's pension and post-retirement health care plans should be subject to collective bargaining.

4. I have authored numerous articles and research papers on various aspects of labor economics in general and on wage comparability analysis in particular. I have a B.S. from Cornell University and a M.A. and Ph.D. in Economics from Harvard University. A copy of my curriculum vitae is appended to this declaration.

5. I was assisted in preparing this report by Dr. James W. Gillula and Dr. Barry T. Hirsch. Dr. Gillula is Managing Director, U.S. Government Consulting, Global Insight, Inc. He has served as a consultant on labor economics issues to government agencies and private firms. He has collaborated with me in past studies of the comparability of wages and benefits of USPS employees, New York City public school teachers and airline personnel. He has a B.A. in Economics from Washington University, St. Louis, and M.A. and Ph.D. degrees in Economics from Duke University. Dr. Hirsch is the E.M. Stevens Distinguished Professor of Economics at Trinity University, San Antonio, Texas. His research focuses on wage determination in U.S. labor markets. Recent work includes the study of union wage gaps and earnings in the airline and trucking industries. Dr. Hirsch has authored numerous books and articles. He serves on several editorial boards, including Industrial and Labor Relations Review and Industrial Relations. He has collaborated with me in past studies of the comparability of wages and benefits of USPS employees, New York City public school teachers and airline personnel. He received his Ph.D. from the University of Virginia.

6. We have been retained by Delphi Corporation ("Delphi" or the "Company") in this matter and asked to evaluate the current wages and benefits of Delphi employees and to assess the wage proposals the Company has made for its unionized employees. This declaration

is a statement of my opinions as well as the bases for those opinions, as supported by the work that I have performed or supervised. All opinions set forth in this declaration are based upon my review of relevant documents, articles and publicly available information sources, publicly available data reported by U.S. Department of Labor, as well as my own knowledge and more than 30 years of experience as a labor economist. This report and declaration summarizes my opinions and the bases for them as supported by the work I have performed. My conclusions are based on the facts as they exist today. If I were called upon to testify, I would testify competently to the matters set forth below.

II. Executive Summary

7. This report provides evidence on how the current and proposed wages and benefits of Delphi's unionized employees compare with similar workers within the automotive parts industry and with comparably skilled employees economy-wide.

8. The automotive industry has become increasingly competitive over time and our report is written in the context of these changes. Delphi and a number of other automotive parts manufacturers are either in bankruptcy or in financial trouble. Although there are several reasons for these problems, one of the most important, and the focus of our report, is the relatively high labor cost structure of these companies. Among some companies, including Delphi, not only are their current wage and benefit provisions for employees high, but they also bear substantial legacy and fixed costs associated with retirees, non-active employees receiving workers' compensation, future benefit liabilities accrued to current employees, and workers no longer needed but who continue to receive pay (the so-called "JOBS Bank"). At a time when the industry was less competitive and the output of American-owned automobile companies was expanding, high labor costs could be funded through higher prices to consumers. As the

automotive parts manufacturer industry has become more competitive, high labor costs have become a threat to the competitive existence of firms that bear those high costs.

9. The criterion by which we evaluate current and proposed wages and benefits at Delphi is the comparability principle. Comparability in compensation (wages plus benefits) exists if Delphi's employees are paid equal compensation to comparably skilled workers both economy-wide and those employed by competitor firms. Employers must offer workers a comparable pay package to attract and retain qualified employees, but they need not pay more. However, employers who pay above market wages and benefits will face a competitive cost disadvantage as a consequence. Our analysis of the current wages of Delphi's unionized employees shows that the wages of all but a few hundred of Delphi's workers are substantially above the market levels needed to attract and retain employees. The exception applies to some workers hired in recent years under agreements specifying what the company refers to as "non-traditional wages." Agreements with USW and IUE locals include jobs with lower starting rates and no advancement to traditional or "legacy rates." Some recently-hired workers at UAW plants are paid under supplemental agreements that also specify non-traditional wage rates.

10. Our first comparison group is comparably skilled workers economy-wide. The wage data are published by the U.S. Bureau of Labor Statistics ("BLS"). Comparing Delphi's current wages to those of comparably skilled workers economy-wide, we find:

- The average hourly earnings (base wages plus cost of living adjustment ("COLA")) of Delphi's skilled workers are approximately 46% higher than the earnings of similarly skilled workers economy-wide.
- The average hourly earnings of Delphi's production workers (except those on non-traditional wage scales) are 104% higher or more than double the earnings of similarly skilled workers economy-wide.
- The base wages of some of Delphi's production workers covered by non-traditional agreements approximate market wage levels, while other non-traditional agreements provide wages above market levels.

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11. Our analysis of the market position of Delphi's non-wage benefits is based on the cost to the employer of providing benefits. With respect to the current non-wage benefits received by Delphi workers, we find:

- The non-wage benefits of Delphi's skilled workers are about three times greater than those of similarly skilled workers economy-wide on a cost per hour worked basis.

- The non-wage benefits of Delphi's production workers are four times higher than those of similarly skilled workers economy-wide.

12. Combining the cost of benefits with wages to analyze the total compensation of Delphi workers, we find:

- Total compensation of Delphi's skilled workers is $62 to $81 per hour depending on how some legacy and fixed costs (e.g., retiree health benefits, workers' compensation) are counted. Consequently, Delphi's skilled workers have a total compensation premium relative to comparable workers economy-wide of 95% to 150%.

- Total compensation of Delphi's production workers is $55 to $73 per hour depending on how legacy and fixed costs are counted. Consequently, Delphi's production workers have total compensation that is 2.6 to 3.5 times greater than comparable workers economy-wide.

13. Our second comparison group is Delphi's competitors in the automotive parts industry. Comparing the total compensation (wages and benefits) of Delphi production workers with the labor costs of Delphi's competitors in the automotive parts industry, we find:

- For Delphi's competitors in the automotive parts industry, compensation costs per hour are roughly $22 per hour. Consequently, Delphi's production workers have a total compensation premium relative to Delphi's competitors of roughly 150% to 230%. The sample of automotive parts competitors includes both union and nonunion firms. If the union firms were eliminated from the competitor sample, the premium would be higher. In the changing automobile industry, the need to compete with nonunion firms is a reality of the marketplace.

- Unless Delphi were able to substantially lower its noncompetitive benefit costs, including legacy and fixed costs, they would need to pay a below market wage rate in order to be competitive on total compensation.

14. In addition to our compensation analysis, we also analyzed the quit rates of Delphi employees compared to quit rates economy-wide. Quit rates measure the percent of total employees who voluntarily leave their jobs during a year (excluding retirements).

- Delphi's annual quit rate was less than 1% of employees during 2002 to 2004 and 1.7% in 2005.
- This quit rate is far lower than the 19-21% average economy-wide and roughly 15% average in manufacturing.

15. This evidence on quit rates strongly reinforces and confirms our conclusion that workers at Delphi are paid wages and benefits beyond that required by the comparability standard and required by competitive labor market forces. Quit rates that are this low are a characteristic of firms that pay a very high compensation premium.

16. Finally, we analyze the effect that Delphi's wage and benefit proposals would have on pay comparability for its workers and the company's competitive position. We conclude that were the pay proposals implemented:

- The wages of Delphi's skilled workers would be reduced so that they approximated market wage levels.
- The wages of Delphi's production workers would be reduced so that they approximated market wage levels.
- The non-wage benefits received by Delphi's skilled and production workers would be reduced so that on a current cost basis (excluding some remaining legacy and fixed costs) they approximated market benefit levels.
- Assuming Delphi succeeds in eliminating certain legacy and fixed costs that were not fully addressed in the Company's mid-November 2005 proposals, the combination of roughly competitive wages and market benefits would result in a total compensation package for Delphi's union workers that would approximate market compensation levels.

17. Based on the above evidence, we conclude that were the wage and benefit proposals implemented, Delphi's compensation to its workers would be sufficient to continue to attract and retain a highly qualified workforce well into the future. Assuming Delphi succeeds in

eliminating remaining fixed and legacy labor costs that currently burden its cost structure, the November 2005 wage and benefit proposals can result in Delphi's overall labor costs being competitive within the automotive parts manufacturing industry.

18. In this report, we analyze the proposals for changes in wages and benefits presented by Delphi to its unions in mid-November 2005. Delphi subsequently offered revised proposals on March 24, 2006. The revised proposals would provide more generous compensation to Delphi workers than would the November 2005 proposals, in the event that financial support is provided by General Motors Corporation ("GM"). We understand that the cost difference between the November 2005 and March 2006 proposals would be borne by GM. Many provisions of the March 24 proposals would revert to the mid-November proposals if sufficient support from GM is not received. Therefore, this report will focus on the wage and benefit costs reflected in the November 2005 proposals.

III. Introduction and Report Methodology

o Overview

19. Delphi is a world-leading supplier of vehicle electronics, transportation components, integrated systems and modules, and other electronic technology. Delphi was part of GM until 1999, at which time it became an independent company. Delphi assumed the terms of existing collective bargaining agreements between GM and the unions representing its organized workforce. Delphi sought chapter 11 reorganization relief on October 8, 2005. As part of that reorganization, Delphi is attempting to lower its cost structure, which includes lowering their labor costs. We have been asked to provide a compensation comparability study to analyze Delphi's current compensation position for its unionized workforce and to assess how that position would change if the current proposals were implemented.

- Wage and Benefit Comparability

The Comparability Standard

20. The principal criterion used in the analysis is wage and benefit comparability. The comparability standard is the criterion that academic economists use in evaluating relative wages and benefits. Comparability analysis compares the pay and benefits of a group of workers to the pay and benefits of other workers with roughly similar skills in jobs that have similarly attractive working conditions. Any excess of wages and benefits over those for comparable jobs is referred to as a wage and benefits premium. A shortfall of wages and benefits is called a negative premium.

21. The comparability standard is based on the principle that workers with comparable skills and comparable working conditions should receive comparable compensation – the sum of wages and benefits. This can be supported on a norm of basic fairness or horizontal equity across workers doing comparable work. When the standard is met, workers with comparable skills working in jobs with similarly attractive (or unattractive) worker conditions are paid the same amount, regardless of whether they work in the automotive parts industry, other areas of manufacturing, or other sectors of the economy.

22. The concept of equal pay for comparable skills and working conditions is also an outcome produced in a competitive labor market. From the perspective of employers, comparability has the feature of requiring that compensation be set at the level required to attract and retain well-qualified employees. A firm that provides a competitive wage and benefits package is not at a competitive disadvantage. In the past, when the automotive industry was less competitive, the automotive parts firms could pay above-market wages and benefits without adverse effects because they could pass along the higher costs from noncompetitive compensation levels to their customers in the form of higher prices. That is no longer true today.

As the industry has become more competitive, deviations from comparability carry substantial costs.

Choice of Comparison Groups

23. Comparability analysis requires the choice of a comparison group or groups with which Delphi workers can be compared. The comparison group should consist of workers in the relevant labor market with roughly similar skills and in jobs with roughly similar working conditions as do Delphi workers. Because workers and jobs differ in numerous ways, and not all these ways can be measured, there is no "perfect" comparison group. Using alternative comparison groups is thus useful in defining a market wage.

24. In this report, two main comparison groups are used to help identify market wages. First, we compare Delphi wages and benefits with the wages and benefits paid to comparably skilled workers economy-wide. Second, we compare Delphi compensation, which includes both wages and benefits, with the compensation paid by competitor firms in the automotive parts industry. In the second comparison group, the workers not only are comparably skilled, but also have comparable working conditions. In addition, for production workers, a wage comparison is also made between the wages of Delphi's traditional employees and the wages paid to some IUE and USW workers on non-traditional wage scales and UAW workers hired under the UAW supplemental agreement with lower than traditional wages. Because there are so few Delphi skilled employees with non-traditional wage rates, we do not use these employees as a comparison group for Delphi's skilled workers earning traditional wages.

25. Our decision to focus on economy-wide pay data is based on the fact that the United States labor market is essentially a national market. Both workers and manufacturing establishments are mobile, with firm mobility taking the form of plant location, and choice of

production and employment levels at each plant. The necessity for automobile parts manufacturers to locate in Michigan and surrounding states, areas that have tended to have relative high manufacturing wages, has lessoned substantially over time. The movement of jobs out of this region, coupled with slow growth in new jobs, is placing downward pressure on wage rates in those labor markets.

o Data Sources for Comparison Group Wages

26. As discussed above, to identify the level of market wages and benefits, two principal comparison groups are used – the wages and benefits of workers economy-wide in similar occupations and the total compensation of Delphi's direct competitors. An additional within-firm wage comparison is made between Delphi workers receiving their standard wages and those employees being paid on non-traditional wage scales negotiated in agreement with the respective unions. Compensation costs for Delphi's direct competitors were provided to us by Delphi, as were data on pay among Delphi's own workforce.

27. The primary source of economy-wide market wage data used in our comparisons is occupational data published by the BLS in the National Compensation Survey (NCS). The NCS reports wages separately for full-time and part-time workers; we use wage data for full-time workers in our analysis.

28. Delphi classifies its employees into hundreds of individual job titles based on job function and skill level. Our wage comparability analysis does not attempt to analyze these jobs separately. To conduct our analysis, we used Delphi's grouping of its job classifications into two broad occupational categories – production workers and skilled workers. Delphi's workers are compared to comparably skilled workers using the Bureau of the Census categorization structure for occupations. The Census categorization reflects their determination of what a worker is

likely to view as an alternative job or career path, since these occupations would require roughly similar training and possess roughly similar job characteristics and working conditions.

29. The wages of these comparable jobs provide an estimate of what Delphi employees might earn were it necessary for them to take jobs outside the industry, or what they would have earned in an alternative career path had they not been hired by Delphi. The occupational wages that we use from the BLS data are average wages of skilled and production workers economy-wide. This economy-wide wage includes both competitive and noncompetitive industries and subsectors within industries. In this respect, the wages of comparable workers that we find from the BLS data may be viewed as an upper bound estimate of what a market wage would be for the occupations where Delphi's workers are classified.

30. Relying on the Census categorization we utilize a summary measure of the overall wage difference for each of the two groups of Delphi jobs – the percentage difference between the average wage of Delphi jobs within a group and the average wage of the corresponding set of comparable occupations in the economy.

31. The most recent data on national average wages from the National Compensation Survey are for July 2004. For Delphi employees, we received tabulations of average hourly earnings calculated from payroll records in October 2005. To put all data used on a common basis, we adjust the BLS wage data to October 2005 levels using the average rate of wage growth over the relevant period as measured by the BLS Employment Cost Index for wages and salaries of production occupations.

o Benefits

32. Compensation of employees includes both wages and benefits. Our comparative analysis of the non-wage benefits of employees focuses on the cost of providing these benefits rather than on the features of the benefit plans. The BLS collects data on Employer Costs for

Employee Compensation (ECEC) economy-wide. To compare the cost of benefits provided to Delphi employees to the average cost of benefits provided to full-time employees throughout the economy, we used data provided by Delphi on the cost of benefits per hour worked for Delphi employees in the same benefit categories and on a similar basis as used in the published BLS data.

33. Our benefit cost analysis compares Delphi employee benefits with the average cost of benefits for all full-time private sector workers in production occupations. Specifically, we measure the dollar cost of employer payments for the following five categories of worker benefits: supplemental pay; paid leave; medical, life and other insurance; retirement; and legally mandated benefits (Social Security, unemployment insurance, and workers' compensation).

o Quit Rates

34. An important component of our analysis involves a comparison of quit rates among Delphi employee groups with workers economy-wide and in manufacturing. If Delphi employees are highly compensated, as our analysis indicates, then voluntary quits should be relatively low. Thus, the quit rate provides confirming evidence as to the existence of a compensation premium. Workers who believe that they are underpaid and/or that their job has unpleasant working conditions are most likely to go elsewhere. Workers who believe that they are paid more than they could get elsewhere in the economy generally stay put.

35. The quit rate for both groups is measured by the percentage of workers who voluntarily quit their jobs during the year. Economy-wide quit rate data are taken from the BLS Job Openings, Layoffs and Terminations Survey ("JOLTS"). Part-time workers, who typically have higher quit rates, are included in the figures compiled by JOLTS as well as for Delphi. The share of part-time workers in total employment is greater economy-wide than for Delphi, and some small portion of the large differences seen in quit rates for Delphi employees and

economy-wide may be due to this inclusion of part-time workers. The comparison of quit rates at Delphi with quits in the manufacturing sector will be largely unaffected by part-time workers, since part-time employment is very low in manufacturing.

IV. Analysis of Delphi's Current Wages

- Characteristics of Delphi's Workforce

36. Delphi manufacturing plants in its North American operations employed approximately 30,000 employees represented by the UAW, IUE, USW and other unions as of October 2005 (this includes workers on layoff and those in the JOBS Bank, but does not include employees on leave of absence or inactive workers of Delphi plants that have closed). As described above, Delphi classifies all hourly unionized employees as production or skilled workers. Approximately 23% are classified as skilled and 77% as production workers. The average base wage rate of these Delphi unionized personnel in October 2005 was $26.13. For skilled workers, the average rate is $30.14, while for all production workers it is $24.90. All traditional Delphi hourly workers receive a cumulative cost of living adjustment (COLA) in addition to the base wage rate, which in October 2005 was $1.16 per hour.

37. The wages of Delphi employees are governed by local agreements as well as by national agreements with the UAW, IUE and USW. Although, wage differences across job classifications are subject to local negotiation, historically the wage rates for a given job classification have been quite similar across all Delphi plants.

38. Starting in the mid-1980s, agreements with lower starting wage rates but provisions to grow into the legacy rates were negotiated at many IUE plants. More recently, agreements with lower rates that do not grow to the legacy wage rate have been negotiated with IUE and USW locals. At several UAW plants, production workers hired since May 2004 – termed supplemental hires – have been brought in at lower wages and reduced benefits. The

wage rates in these agreements are well below wage levels in the national UAW agreement, but are above wages in some recent IUE and USW non-traditional wage agreements.

- o Wages of Delphi's Skilled Workers

39. We calculate the average wage of workers economy-wide that are comparable to Delphi's skilled workers based on data on the average hourly earnings of full-time workers across the 12 occupational categories where the BLS classifies most Delphi skilled employees. Principal results of this comparison are:

- The average wage (base pay plus COLA) of Delphi's skilled workers is $31.30.
- The average wage of full-time workers in comparable occupations economy-wide is $21.46.
- The average wages of Delphi's skilled workers are 46% higher than the average wages of full-time workers in comparable occupations economy-wide.

- o Wages of Delphi's Production Workers

40. We calculate the average wage of workers economy-wide that are comparable to Delphi's production workers based on data on the average wages of full-time workers in the two broad occupational groups where the BLS classifies most Delphi production employees: "Machine operators, assemblers, and inspectors" and "Handlers, equipment cleaners, helpers, and laborers."

- The average wages (base pay plus COLA) of Delphi's production workers excluding those paid on non-traditional wage schedules is $27.25.
- The average wages of full-time workers in comparable occupations economy-wide is $13.34.
- The average wages of Delphi's traditional production workers are 104% higher than the average wages of full-time workers in comparable occupations economy-wide.

- Delphi Production Workers with Non-Traditional Wages

41. The average base wage for Delphi's production employees where non-traditional wage scales have been negotiated is well below the rate of Delphi's traditional employees. The average base wage of production workers across seven plants where non-traditional wage agreements have been reached with the IUE and USW is $12.41. The average base wage of workers at seven plants where non-traditional wage scales were implemented in local UAW agreements is $14.91. Overall, the average base wage of these workers paid on non-traditional wage scales is $12.90, while the average for all traditional Delphi production workers is $26.09. (Some workers on non-traditional wage scales do not receive COLA and some receive COLA at a reduced rate; the analysis in this section is based on the base wage rate alone.)

42. The negotiated non-traditional rates reflect competitive pressures and the need for the company to obtain production costs similar to its closest competitors. The average base wage rate of Delphi's traditional production workers of $26.09 is 102% higher than the $12.90 average of Delphi production workers paid on non-traditional wage scales – a wage advantage that is similar to that found in the previous section in comparing Delphi's traditional production worker wage with the economy-wide market wage.

- Conclusion

43. Current wages for Delphi's union workers are substantially above market levels. Using an economy-wide comparison of comparable occupations, we find a wage premium of 46% for Delphi's skilled employees and 104% for their production workers. Such a high wage premium is clearly inconsistent with the comparability standard and is not sustainable in a competitive market.

V. Delphi's Benefit Costs and Total Compensation

o Methods and Data

44. In this section we analyze the relative position of Delphi's non-wage benefits and their total compensation, including both wages and benefits. We do so against two comparators. The first compares Delphi's total compensation against the total compensation of comparable workers economy-wide. The second, based on a much more focused data set, compares Delphi with the total compensation of the firms with which it competes.

45. Total compensation is the total pay package received by workers. Workers value not only the money in the pay package, but also their retirement plans, medical insurance, paid leave and other benefits. Consequently, it is compensation that matters rather than wages or benefits individually in defining market pay. If Delphi (or some other firm) were to pay very high benefits, and it were trying to reach the market level of labor costs, then it need not match market wage levels. If their benefits were above market levels, then their wages could be below market and their total compensation would still be competitive.

46. Our comparative analysis of Delphi's non-wage benefits of employees focuses on the cost of providing these benefits, not on the features of the benefit plans. As noted above, the BLS collects data on this basis economy-wide and issues reports on Employer Costs for Employee Compensation ("ECEC"). To compare the cost of benefits provided to Delphi employees to the average cost of benefits provided to comparable full-time employees throughout the economy, we use data provided by Delphi on the cost of benefits per hour worked for Delphi employees in the same benefit categories as used in the published BLS data. These Delphi data show the average hourly cost of wages and benefits during 2005. Therefore, the average wage figures for Delphi's production and skilled workers shown in this section differ

slightly from the average wage figures in the previous section, which were average wages as of October 2005.

47. We conduct this benefit cost comparison separately for the two broad categories of Delphi's unionized employees identified in our wage analysis, skilled workers and production workers. We measure the dollar cost of employer payments for the following five categories of worker benefits: supplemental pay; paid leave; medical, life and other insurance; retirement; and legally mandated benefits (Social Security, unemployment insurance, and workers' compensation).

48. The starting point for our estimate of the cost of benefits is the average hourly wage for comparable workers economy-wide. For consistency with the Delphi data, which are for a full-year, we use mid-year (June) 2005 wages for comparable workers economy-wide – $13.25 for production workers and $21.29 for skilled workers. To estimate the average benefit costs economy-wide for a production worker earning $13.25 per hour and a skilled worker earning $21.29 per hour, we use BLS data on the average benefit costs in June 2005 of all production occupations (this broad category in the BLS data includes both Delphi's production and skilled workers). We estimate the cost of most categories of benefits (supplemental pay, paid leave, retirement, and legally required) as a fraction of the wage, based on BLS data on the ratio of those benefit costs to wages for production occupations. For insurance benefits, we use the average economy-wide cost for production occupations as reported in the BLS data, since health benefits may be less likely than other benefits to increase proportionately with wages.

- Benefits at Delphi versus Economy-Wide and Among Competitors

  Skilled Employees

49. The results of the comparison for skilled workers are presented in Table V.1.

Table V.1 Total Compensation of Delphi Skilled Workers and Comparable Workers Economy-Wide: 2005

	Delphi	Comparable Workers Economy-wide	Delphi Difference
Total Compensation	$62.26	$31.89	95%
Wages and Salaries	30.73	21.29	44%
Total Benefits	31.53	10.60	197%
Supplemental Pay	6.22	1.58	294%
Paid Leave	6.09	2.11	189%
Retirement and Savings	3.01	1.40	115%
Legally Required Benefits	6.27	3.19	97%
Insurance	9.94	2.32	328%

50. In addition to high earnings, Delphi's employee benefits are far in excess of those paid throughout the economy. Delphi skilled employees receive total benefits in these five categories of $31.53 per hour, which means that total compensation was more than double their average hourly pay of $30.73 in calendar year 2005. By contrast, workers economy-wide receive average hourly benefits in these categories of $10.60 or 50% of their $21.29 average hourly earnings in 2005.

51. Even this extraordinary benefit level does not tell the full story. The benefit costs for Delphi workers shown in this table do not include an additional $10.72 per hour in retiree health insurance and other post-employment benefits and $3.36 per hour in the cost of compensation of workers in the JOBS Bank, as well as other fringe benefits that are not included in BLS data because they are so unusual in the economy. These additional costs, however, are a

very real part of Delphi's expenses. Including these fixed and legacy costs, the total compensation per hour of Delphi's skilled workers is $80.78.

52. The high benefit cost for Delphi workers is due both to the provisions of their respective plans and to the fact that certain benefits increase with the employees' pay. For example, retirement and paid leave are relatively expensive, not only because of the plan detail, but also because the cost is linked to the high wage rates (the wage premiums), which push benefit costs still higher.

53. Consequently, we conclude that:

- Delphi skilled workers have a benefits premium of 197%, that is, their cost per hour worked of benefits is about three times higher than comparable workers economy-wide.
- Because Delphi's benefit premium exceeds their wage premium, the effect is to generate a total compensation premium (wages plus benefits), which exceeds their wage premium.
- Delphi skilled workers have a total compensation premium of 95%, that is, their total compensation is nearly double that of comparable workers economy-wide. This figure excludes substantial legacy and fixed (retiree benefits and other) costs that Delphi pays. If these costs were incorporated in the calculation, Delphi's total compensation premium for skilled workers would be over 150%.

Production Employees

54. Similar data for Delphi's production workers are presented in table V.2.

Table V.2 Total Compensation of Delphi Production Workers and Comparable Workers Economy-Wide: 2005

	Delphi	Comparable Workers Economy-wide	Delphi Difference
Total Compensation	$55.03	$20.71	166%
Wages and Salaries	25.94	13.25	96%
Total Benefits	29.09	7.46	290%
Supplemental Pay	5.33	0.98	444%
Paid Leave	5.15	1.31	293%
Retirement and Savings	3.01	0.87	246%
Legally Required Benefits	5.77	1.98	191%
Insurance	9.83	2.32	324%

55. The benefits and total compensation premiums for Delphi's production workers are even greater than they were for skilled workers:

- Delphi production workers have a benefits premium of 290%, that is, their cost per hour worked of benefits is about four times higher than comparable workers economy-wide.
- Delphi production workers have a total compensation premium of 166%, that is, their total compensation is over 2.6 times higher than comparable workers economy-wide.
- This 2.6 figure excludes substantial legacy and fixed (retiree health and other) costs that Delphi pays. If these costs were included in the calculation, Delphi's total compensation for production workers would be 3.5 times that of comparable workers.

Total Compensation Among Delphi's Direct Competitors

56. The above results are generated by comparing the average wages and cost of benefits of Delphi employees with BLS data for comparable workers throughout the economy. Delphi has made available to us another data set that is particularly valuable for comparability analysis – information on the "all-in pay rate" (total compensation) of production workers at many of their competitors. These data were gathered from various sources, which can be grouped as follows:

- Customer Data. Delphi receives compensation cost data from some automotive parts manufacturers who bid to become Delphi suppliers. In addition, Delphi has labor cost information on other auto parts companies from their previous General Motors ties. These Customer Data include both union and nonunion firms.
- Business Team Data. Delphi's various business units maintain information on the production costs of the companies with which they compete to use as a benchmark in bidding for supplier contracts. Data on the all-in pay rates of production workers of competitors were compiled from these records. These data also include both union and nonunion firms.
- Center for Automotive Research. CAR Analysts gathered data on the compensation costs from a sample of auto parts producers and made these data available to Delphi. These data permit the calculation of average all-in pay rates separately for union and nonunion companies.

57. The compensation cost data available for Delphi's competitors include only production workers, so we limit our comparison of results to production workers. Table V.3 summarizes these findings.

58. The competitor firms that are included in Delphi's Customer Data and Business Team Data are a combination of both union and nonunion mature auto parts suppliers. From the aggregate of these two samples, Delphi computes a benchmark for competitors' all-in production worker compensation costs of approximately $22.00. At Delphi's current compensation costs of $55-$73, Delphi workers are receiving a premium of 150% to 234% above this industry benchmark. The market levels of compensation and the Delphi compensation premiums reported here are similar to the results shown above in Table V.2.

Table V.3
Current Total Compensation Premium of Delphi's Production Workers
Estimated from Data on Competitor Firms

Delphi Total Compensation:		
Excluding Legacy and fixed Costs	$55.03	
Including Legacy and fixed Costs	$73.54	
Competitor Compensation Estimate	Compensation	Premium
Customer Data	$23.10	138% - 218%
Business Team Data	$21.60	155% - 240%
CAR – Nonunion Plants	$18.70	194% - 293%

59. Delphi competes for GM's business with other automotive parts manufactures, yet Delphi does so with labor costs that are two or three times those of its competitors. In an increasingly competitive industry, these differentials place Delphi in a weak competitive position. Differentials of this size are also extraordinary when compared to union wage differentials that are normally observed. Economics data on the union wage premium suggest a

premium closer to 15% to 20% across the private sector. With benefit costs included, the economy-wide union compensation premium is somewhat higher (about 17% to 22%).

60. The results for nonunion plants from the Center for Automotive Research study ($18.70 per hour) cast further doubt on Delphi's competitive position. The results are informative, showing that Delphi faces nonunion competitors with all-in compensation costs for production workers that are well below the approximate $22 per hour industry benchmark.

61. Our economy-wide estimate of the market level of total compensation for workers comparable to Delphi's production workers – $20.71 – lies between the two above figures ($18.70 and $22.00). This reflects the fact that, from an opportunity wage standpoint, the relevant comparator group is all workers economy-wide in occupations comparable to Delphi's workforce, not just workers in the automotive parts industry. Our comparator group, like Delphi's competitor data, includes both union and nonunion workers, but it is less influenced by the above-market wages of some mature suppliers in the auto parts industry. If the nonunion sector of the automotive parts industry continues to grow over time, average market compensation levels should continue to decline, moving away from the current industry average and closer to the nonunion level of compensation.

- Conclusion

62. The previous section of this report established that Delphi union employees realize a substantial wage premium relative to similar workers in similar jobs economy-wide. This section established that Delphi employees realize an even higher total compensation premium owing to highly generous benefits. If legacy and fixed costs are included, total compensation is substantially larger. Even if Delphi's wage rates were at competitive levels, Delphi's workers would receive a large compensation premium owing to high benefit levels.

Delphi's bankruptcy has brought to the forefront the company's extremely large compensation premiums, premiums that are unsustainable in an increasingly competitive market.

VI. Quit Rates

63. Our analysis of the wages and benefits of Delphi's union employees in the previous two sections has identified substantial wage and benefit advantages compared to similar workers economy-wide and with competitor firms. If Delphi employees are highly compensated, as our analysis indicates, then voluntary quits should be relatively low. Thus, the quit rate provides confirming evidence as to the existence of a compensation premium.

64. Table VI.1 compares the quit rate of Delphi workers with the quit rate in the economy as a whole and in the manufacturing sector. The quit rate is the percentage of workers who voluntarily quit their jobs over some time period, measured at an annual rate (note that retirements are not counted as voluntary quits). Here we present figures for Delphi workers annually for 2002-2005.

Table VI.1
Quit Rates of Delphi Union Employees and Employees Economy-Wide: 2002-2005

	2002	2003	2004	2005
Delphi	0.9%	0.3%	0.9%	1.7%
Economy-wide	20.5%	19.3%	21.1%	23.7%
Manufacturing Industry	14.1%	12.9%	14.7%	16.7%

Quit rate is voluntary quits as a percentage of employment at an annual rate. 2005 figures are annualized rates for 9 months of the year.
Source: Delphi: personnel records. Economy-wide and industry quit rates: BLS at www.bls.gov/jlt/home.htm.

65. The quit rate data further support the conclusion that there exists a large compensation premium for Delphi workers. Delphi employee quit rates are astonishingly low:

effectively, Delphi workers do not quit their jobs. Among all their union employees, the quit rate in 2002-2004 was less than 1.0 quits per hundred workers in each year. The annualized rate for the first nine months of 2005 was 1.7%. Some of the voluntary quits that did occur were the result of workers accepting large incentive payments offered by Delphi to stimulate a reduction in force at selected plants. For example, increased voluntary resignations were stimulated by incentive payments at the Gadsden plant in 2002, the Moraine plant in 2004, and the Anaheim, Lockport, and Vandalia plants in 2005. Absent these incentive plans, the quit rates among Delphi's union employees would have been even lower. However, even quit rates at 1.7% are remarkable. In the overall economy the quit rate has ranged around 20%. In the manufacturing sector, which includes the automotive parts industry, the quit rate is roughly 15%, still much higher than at Delphi. These differentials in quit rates are supportive of the conclusion that a very high compensation premium exists among Delphi's union employees.

VII. Comparability Analysis of Delphi Wage and Benefit Proposals

o Relative Wages Following Implementation of Delphi's Wage Proposals

66. In this section, we analyze the proposals for changes in wages and benefits presented by Delphi to its unions in mid-November 2005. These proposals include the following major elements:

- Reduce the hourly wages of production workers to an average of $12.50, with wages ranging from $12.00 to $13.00 (starting wages would be $10 to $11 per hour, with a 3-year roll-in period).
- Reduce the wages of skilled trades to $21.50 (starting wages of skilled workers would be $19.50, with a 4-year roll-in period).
- COLA would be eliminated.
- Delphi's proposals to reduce the cost of non-wage benefits provided to employees include the following major elements:
- Hours in excess of 40 per week would be paid at time-and-a-half.

- A shift premium of 5 percent, only for shifts before 5 AM.
- Reduce holidays to 10; no paid Independence week.
- Maximum of 160 hours vacation.
- Introduce deductibles, co-pays and higher out-of-pocket maximums for health care plans; cost sharing for prescription drugs; and employee contributions for health insurance premiums.
- $30,000 life insurance; 26 weeks of S&A (Sickness and Accident) at 60 percent of pay; employee paid extended disability benefits for 36 months at 50 percent of pay.
- No health care or life insurance in retirement, except COBRA.
- Freeze the defined benefit pension plan.
- 3 percent employer contribution to defined contribution pension plan for new hires.
- Institute coordination of workers' compensation benefits with pension benefits where allowed by law.
- Eliminate the JOBS Bank.
- Eliminate Supplemental Unemployment Benefits and GIS (Guaranteed Income Stream).

67. As with our analysis of Delphi's current benefits and total compensation, our analysis of Delphi's wage and benefit proposals focuses on the cost of providing these benefits, rather than on the particular features of various types of benefits. Our analysis is based on data provided by Delphi on how the implementation of the proposals listed above would affect the cost of benefits per hour worked for Delphi employees. Specifically, Delphi provided data on the expected cost per hour worked of their benefits in the same benefit categories and on a similar methodological basis as used in the published BLS data on Employer Costs for Employee Compensation.

68. The proposals listed above would substantially reduce Delphi's compensation costs, but they would not eliminate all legacy and fixed costs Delphi currently faces. The most

substantial of these remaining costs are pre-transformation workers' compensation, pension and health and life benefits for retirees, and non-service expense for pension, and health and life benefits for active workers. Delphi continues to seek agreements to eliminate these legacy and fixed costs. In the analysis that follows, we focus primarily on the wage and benefit costs that will be required once proposed rates of pay and benefits apply fully to all Delphi employees (i.e., assuming all benefits accrued under past contract terms have been removed from the system). We show separately the total labor costs Delphi would face if these additional fixed and legacy costs were not eliminated.

69. Although much of the legacy and fixed costs do not directly benefit current workers, they apparently benefit these workers indirectly, since many union members continue to favor the retention of these costs. With legacy and fixed costs included in the measure of compensation to Delphi's employees, the result is to leave Delphi with a noncompetitive pay package. To the extent that company expenditures for legacy labor costs provide value to current employees, then pay comparability can be achieved with wages and benefits to current workers that are below levels seen economy-wide.

70. The Delphi data that we received show what Delphi's cost of wages and benefits would be upon implementation of all proposed changes in wages and benefits. That is, although some changes in benefit costs would not be effective immediately on the target implementation date of July 1, 2006, these figures approximate Delphi's proposed compensation per hour worked as if all proposed changes are fully implemented on January 1 of the first year and that all cost implications are realized at the time of implementation.

71. In section V we presented data on the average total compensation, including benefits as well as wages, of workers economy-wide in occupations comparable to Delphi's

skilled workers and to their production workers at mid-year 2005. In order to evaluate Delphi's wage and benefit proposals at the time of implementation (July 1, 2006), we adjusted the mid-year 2005 economy-wide compensation figures for the expected change in wages and benefits through July 1, 2006. Wage growth over this period was projected at the trend rate of the last four quarters, while benefit costs as a fraction of wages were estimated based on the most recent BLS data. Table VII.1 presents the results of this comparison for Delphi's skilled workers.

72. The results in Table VII.1 show that the wage and benefit proposals would eventually bring both wages and benefits for current Delphi skilled workers in line with market compensation levels. Proposed wages will be just $0.28 below the economy-wide wages predicted for comparable workers economy-wide. The difference in benefits will be just $0.17. The proposed total compensation of $32.35 for Delphi's skilled workers will be just 1% below the $32.80 in total compensation expected economy-wide.

Table VII.1
Total Compensation of Delphi Skilled Workers After Implementation of the Company's Wage and Benefit Proposals and Comparable Workers Economy-Wide: 2006

	Delphi	Comparable Workers Economy-wide	Delphi Difference
Total Compensation	$32.35	$32.80	-1%
Wages and Salaries	21.50	21.78	-1%
Total Benefits	10.85	11.02	-2%
Supplemental Pay	1.58	1.61	-2%
Paid Leave	2.40	2.16	11%
Retirement and Savings	0.44	1.50	-71%
Legally Required Benefits	2.67	3.29	-19%
Insurance	3.76	2.46	53%

73. As noted above, the compensation costs of Delphi's skilled workers shown in Table VII.1 represent the costs for employees excluding certain legacy and fixed employment

costs that Delphi continues to seek to eliminate. In particular, the benefit costs for Delphi workers shown in this table exclude an additional $3.68 per hour in retiree benefits and other post-employment benefits and fixed costs of $4.86 (which includes $3.83 per hour in costs related to workers compensation for inactive employees). Although Delphi's wage and benefit proposals would reduce some current fixed and legacy employment costs, the remaining costs would continue to add an average $8.54 per hour to the employment cost of Delphi's skilled workers if these remaining costs fail to be eliminated. The continuing fixed and legacy costs of $8.54, added to the $32.35 of compensation to workers shown in Table VII.1, would bring the all-in hourly labor rate to $40.89. This all-in labor rate is 25% higher than the $32.80 average (expected in mid-2006) for compensation of comparable workers. With these labor costs, Delphi would remain at a substantial competitive disadvantage.

74. Table VII.2 compares the total compensation of Delphi's production workers after the implementation of proposals with the total compensation of comparable workers economy-wide.

Table VII.2
Total Compensation of Delphi Production Workers After Implementation of the Company's Wage and Benefit Proposals and Comparable Workers Economy-Wide: 2006

	Delphi	Comparable Workers Economy-wide	Delphi Difference
Total Compensation	$20.79	$21.33	-3%
Wages and Salaries	12.50	13.55	-8%
Total Benefits	8.29	7.78	7%
Supplemental Pay	0.92	1.00	-8%
Paid Leave	1.39	1.34	4%
Retirement and Savings	0.38	0.94	-60%
Legally Required Benefits	1.79	2.04	-12%
Insurance	3.81	2.46	55%

75. As seen previously for skilled workers, the figures seen in Table VII.2 show that Delphi's proposals for its production workers, absent the remaining legacy and fixed employment costs, will bring total compensation in line with expected economy-wide levels for production workers. Following implementation of the proposals, total compensation for Delphi's workers will be $20.79 per hour, 3% below the $21.33 expected economy-wide. While proposed wages for production workers will be somewhat below wages economy-wide ($12.50 versus $13.55), this will be largely offset by higher benefit costs ($8.29 versus $7.78).

76. As discussed for skilled workers above, the compensation costs of Delphi's production workers shown in Table VII.2 do not include certain legacy and fixed employment costs that would continue to add to Delphi's overall labor costs if Delphi is not successful in eliminating them. The benefit costs for Delphi workers shown in this table exclude $3.71 per hour in retiree benefits and other post-employment benefits and fixed costs of $4.93 (which includes $3.92 per hour in costs related to workers compensation for inactive employees). Taken together, remaining fixed and legacy employment costs would continue to add $8.64 per hour to the employment cost of Delphi's production workers, bringing the all-in hourly labor rate to $29.43. This all-in labor rate is 38% higher than the $21.33 average for comparable workers expected in mid-2006.

- Conclusion

77. Based on this analysis, we conclude that Delphi's November 2005 wage and benefit proposals will set the compensation levels for their skilled and production workers approximately equal to the level for comparable workers economy-wide. As noted above, this conclusion assumes that Delphi's remaining legacy and fixed costs are removed. We conclude that with the implementation of the wage and benefit proposals Delphi would continue to have a strong position in the labor market and would be able to attract and retain a highly qualified

workforce. By providing compensation to its workforce that is comparable to compensation for similar workers economy-wide, Delphi's proposed wage and benefit schedules would satisfy the competitive requirement of pay comparability.

I declare under penalty of perjury, and pursuant to 28 U.S.C. § 1746, that the foregoing is true and correct to the best of my knowledge, information and belief.

Executed this 30th day of March, 2006

/s/ Michael L. Wachter
MICHAEL L. WACHTER