MECHANICS DISPATCH

News and Updates

Dear Members,

LOA #29 – Industry Reset, the first update of the Reset Cost Model has just been performed, comparing updated pay and other economic items for technicians at United Airlines, Delta Airlines and American Airlines. Financial and actuarial analysts from both the IBT and United Airlines recently met to review data, update the cost model and to calculate a new relative value. The updated output from the cost model indicates that the overall value of United Airlines technician's contract items remains well above the two percent minimum advantage over Delta and American, as required in LOA #29. As shown below, the cost model analysis indicates that the overall value of United Technician's selected contract items is 7.7 Percent above the average value of those items at Delta and American.

	United Airlines	Average of Delta and American
Technician Weighted Average Hourly Pay	$49.45	$49.31
Additional Value of All Non-Pay Items above AA & DL	+$3.67	
Total Value of Pay and Non-Pay Items	$53.12	$49.31
United Overall Value vs Average AA/DL	107.7%	

This result is not surprising considering two main factors affecting the updated valuation:

- No significant change for American Airlines' technicians since 2016, and
- A material increase in United technicians' retirement benefit costs.

While there have been some significant improvements in Delta technicians' pay and profit-sharing since 2016, the value of these improvements was undermined by the stagnant value of the technicians contract at American Airlines, where they have not yet reached a new Joint Collective Bargaining Agreement (JCBA). In addition, the relative value of the United technicians' contract has increased due to a large increase in the valuation of the defined benefit plan, CARP, which now includes UA technicians. The improvements in United technicians' retirement plan and pay rates combined with the lack of progress at American have resulted in the value of United technicians' contract items to remain well above the minimum two percent threshold compared to Delta and American (as required in LOA #29). Therefore, no pay increase is due from the first round of the reset analysis that was performed in December of 2018.

However, the Reset Cost Model would have determined that a 1.4 percent pay increase was due to United technicians if technicians at American Airlines (and former US Airways) were able to reach a JCBA in the past two years that contained improvements equivalent to those in the United JCBA. These would include a base pay increase, A&P license pay, line pay, VEBA, vacation hours, medical cost sharing, retirement pay and profit sharing. If American technicians agree to a JCBA over the next two years, in addition to reaching wages and other improvements that are equivalent to or better than those contained in the current UA JCBA, the reset evaluation in 2020 will most likely provide an improvement to United technician pay rates.

The data, methodology and results of the 2018 reset evaluation were calculated, evaluated and assessed by IBT's external financial analyst Dan Akins and by IBT's external actuary, Peter Hardcastle. The data, methodology and results of the 2018 reset evaluation have been deemed to be reasonable and accurate. The large increase in the cost of United's retirement plan was reviewed by Mr. Hardcastle, who states the following:

"I met with United's external actuary to discuss the methodology and assumptions behind the calculation of the cost of CARP. The methodology used by United's actuary considers the market value of the accruals and is consistent with U.S. accounting standards. The cost is based solely on the population of United mechanics and only relates to the cost of benefit accruals for the year. I am in agreement with the methodology used, and I know from experience that the results lie within the range of my expectations. The increase in United's service cost for CARP since 2016, as applied in the cost model, is consistent with my expectation given the increase in benefit population due to the inclusion of the larger and more senior UA Mechanics group, as well as a further drop in the discount rate since 2016."

Both Mr. Akins and Mr. Hardcastle agree that the relative value of the items as calculated by the cost model indicate a 7.7 percent relative advantage of the United technicians' contract items compared to the average value of those same items at Delta and American. The next update of the cost model will be undertaken in early December of 2020, when the then current values of the five contract items will be recalculated and assessed.

In Solidarity,

Vinny Graziano
