PART 3 - Calculating Costs & Building the Base Year Model

Costing Collective Bargaining Proposals: A manual for Canadian academic staff associations

CAUT
Canadian Association of University Teachers

ROBERT HICKEY

Robert Hickey is an associate professor of industrial relations and member of the Faculty of Arts and Science at Queen's University. Rob has served on the bargaining committee for the Queen's University Faculty Association (QUFA), including as co-chief negotiator in the most recent round of bargaining. Rob has also served on QUFA's pension committee and the project to create the University Pension Plan in Ontario.

Professor Hickey teaches courses on labour relations, negotiations and dispute resolution at the undergraduate and graduate levels. He is frequently asked to participate in continuing education and leadership development programs for union officers and staff. His research focuses on labour relations practices and policies. Recent research projects include a study on the impact of technology on workforce development and labour relations in the electrical construction trades and a large survey of work and career experiences in Ontario's community and social services sector.

Prior to his doctoral studies at Cornell University's School of Industrial and Labor Relations, Rob spent ten years as a union representative and organizer in the Teamsters Union.

He is a co-author with Richard P. Chaykowski and Brendan Sweeney of *Costing Collective Agreement Proposals: An Instructional Guide* (Kingston, ON: School of Policy Studies, Queen's University, 2013).

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Canadian Association of University Teachers
2705 Queensview Drive, Ottawa, Ontario K2B 8K2 // **www.caut.ca**
For more information: **acppu@caut.ca**

Part 3: Calculating Costs & Building the Base Year Model

Quick Reference – Part 3 Summary

Part 3 reviews the step-by-step process to calculate costs for each category of compensation and build the Base Year Model. There are **four key calculations** to express cost:

1. Total annual cost
2. Average annual cost per FTE
3. Average cost per course per FTE
4. For salary-related benefits, percent of base salary.

The **roll-up factor** provides a measure of the cost increases triggered automatically by an increase in the base salary. Because of the salary-related benefits, a 1% base salary increase results in a higher cost impact. For example, if the compensation structure has a roll-up factor of 0.3, (salary-related benefit costs are proportionally 30% of total base salary costs, a $1,000 base salary increase will actually cost $1,300.)

Part 3 reviews the calculations and special considerations for each category of compensation in steps 5 through 11 in the template. The summary table in each step populates step 12 to create the Base Year Model.

The template automatically calculates the roll-up factor in the Base Year Model. The summary provided in the Base Year Model also provides the association leadership with insights about the compensation structure and the underlying university or college operations.

The Base Year Model serves as the benchmark for calculating the cost impacts of collective bargaining proposals and comparing them to the existing cost structure of compensation. The Base Year Model reflects the costs of each component of compensation on a per course per FTE, an annual basis per FTE, and the total costs of each component of compensation for the entire bargaining unit.

This section reviews the step-by-step procedure to use the information about compensation to cost each category and build the Base Year Model. While the calculations and formulas are mathematically straightforward, linking the cost information to the underlying operational assumptions in the Base Year Model requires careful consideration for the negotiating team to use the tool effectively during negotiations. This section begins with an overview of the calculation methods and various formats for expressing costs.

Framework for Calculating & Expressing Costs

The framework for calculating and expressing costs for each category of compensation follows a standardized model. The process builds upon the critical steps of identifying and assessing each component of compensation and collecting information to calculate the total annual costs for each component of compensation. Most important, the salary-related benefits should be flagged and the costing team should have the information about the total annual cost for every component of compensation.

There are four key calculations to express compensation costs:

1. **Total annual cost:** This is the total paid by the university or college for a specific benefit for all bargaining unit members per year.[26]

26. If different appointment types have been divided into separate costing models, use only the number of bargaining unit members in that appointment type.

2. **Average annual cost per FTE:** This figure is calculated by dividing the total annual costs by the FTE.[27]

$$\text{Average annual cost per FTE} = \frac{\textit{Total annual costs}}{\textit{Total number of FTEs}}$$

3. **Average course cost per FTE:** This number is calculated by dividing the average annual cost per FTE by the average number of courses delivered by FTE.

$$\text{Average course cost per FTE} = \frac{\textit{Average annual cost per FTE}}{\textit{Average number of courses per FTE}}$$

4. **Percent of salary-related benefits to base salaries:** This calculation is only necessary for salary-related benefits. The figure is used to calculate the roll-up factor for the Base Year Model, (see the Module below on salary-related benefits). This number is calculated by dividing the total annual cost of the benefit by the total annual salary figure from the summary of basic information.

$$\text{Salary-related benefit as a \% of base salaries} = \frac{\textit{Total annual cost of salary-related benefit}}{\textit{Total base salaries}}$$

Figure 4 - Worksheet framework the costing template

Component of compensation:							
	Salary-related?	**Units**	**Rate**	**Total annual costs**	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Item 1							
Item 2							

Summary for Category:				
	Total annual costs	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Total salary-related costs				
Total non salary-related costs				
TOTAL COSTS OF ...				

Figure 4 presents the worksheet framework the costing template uses for each category of compensation. From Step 5 (Premium Pay) through Step 11 (Post-employment Benefits), the template uses the same process to calculate and express costs:

1. Use information to confirm or calculate total annual costs of each component of compensation for the entire bargaining unit.
   a. Note in some cases, it may be necessary to build up the cost of each component of compensation from an individual level to the entire bargaining unit.
2. Once the total annual costs are entered for each item, the preformatted cells in the template will automatically calculate the average annual cost per full-time equivalent (FTE) and the average cost per course per FTE using data from the summary of basic information (Step 4).
3. If the check box indicates that the component of compensation is salary-related, then the template will also calculate wage-related items as a percentage of base salary.
4. At the bottom of each worksheet, the template summarizes all components in each compensation category.

27. It is important to note that if only a portion of the bargaining unit is eligible for certain benefits, the costs will still be expressed as an average of the total bargaining unit. This procedure standardizes the value of benefits across all components of compensation.

The template cells are formatted to perform calculations and populate the Base Year Model from the summary cells. However, depending on the number of items in each category, some adaptation of the formatted cells will be required in most situations.

A critical advantage to using the Base Year Model during negotiations is that it provides the negotiating team with a tool to calculate the ***roll-up costs*** associated with changes in base wages. A two percent (2%) increase in base salaries will impact costs associated with all of the salary-related components of compensation, such as pension contributions. The proportion of costs associated with salary-related benefits to total base wage costs provides a quick estimation of roll-up costs.

Module – Cost Impacts of Salary-Related Benefits

The roll-up factor provides a quick and accurate estimate of the total costs associated with changes to the base salary. In simple terms, a 2 per cent across-the-board (ATB) increase could have a higher actual total salary and salary-related cost impact because of the automatic increases associated with salary-related benefits. For example, the 2 per cent ATB would result in a 2.6 per cent total cost impact if the compensation structure and associated operational assumptions result in a roll-up factor of 0.30.

Any benefit that is tied to the base salary, such as pension contributions, life insurance, and long-term disability (LTD), is part of the roll-up factor. The costs associated with these benefits automatically change with any changes to the base salary. Typically, no additional negotiations or proposals are needed to effect these increases because the benefit levels are already established in the collective agreement and based on the salary of the employee.

When costing compensation and developing the Base Year Model, it is important to make a special note flagging all of the benefits which are salary-related. However, not all components of compensation are salary-related, even items that may be paid as part of a salary. An example of a non salary-related benefit would be a flat rate (dollar-based) stipend. The union may negotiate the application of the across-the-board increase to this stipend, but this benefit will not increase automatically as a result of the ATB increase. Generally, salary-related benefits are constructed as a percentage of the base salary, whereas non salary-related benefits are flat rates or stipend amounts.

How to Calculate the Roll-Up Factor

Calculating the roll-up factor involves identifying and accounting for the impact of salary-related benefits which 'roll-up' the costs of an across-the-board increase (ATB) or general wage increase (GWI). The following steps calculate the roll-up factor.

1. Identify all of the components of total compensation which are salary-related.
2. Collect information about the salary-related benefit in order to calculate the total annual cost of that benefit for the entire bargaining unit.
3. Divide the total annual cost of the salary-related benefit by the total annual base salary cost for the bargaining unit (see Step 3 in the costing template). This calculation provides the partial roll-up factor (percentage) for that benefit item.
4. To calculate the total roll-up factor, divide the total annual costs of all salary-related benefits by the total annual base salary cost for the entire bargaining unit.

Example from the Summary Base Year Model

The process for calculating the roll-up factor is summarized in the Base Year Model. Each step in the process outlined by the template systematically constructs and calculates the roll-up factor. It is very important to note that the roll-up factor is a combination of both the structure of compensation and the operational assumptions in the Base Year Model. In the postsecondary sector, such operational assumptions may not be as significant as an industrial setting where overtime hours worked may be the largest contributing benefit to the roll-up factor. Tracking the salary-related benefits throughout the process of collecting compensation data and calculating total annual costs for each benefit category leads to the summary costs for each category of compensation, as shown in the Summary of Base Year Costs table on the next page.

The Base Year Model summarizes each category of compensation with the components divided between salary-related and non salary-related benefits. To calculate the roll-up factor, total salary-related costs are calculated as a percent of total base salaries, cell F29 in the Summary Base Year Model template. The Base Year Model also provides important insights to the compensation structure and those components that provide the greatest contribution to roll-up costs.

Step 12 - Summary base year model

Summary of Base Year Costs					
	Total annual costs	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**	**% of payroll**
Base salary					
Base salary costs					
Premium pay					
Total salary-related costs					
Total non salary-related costs					
Insured benefits					
Total salary-related costs					
Total non salary-related costs					
Statutory benefits					
Total salary-related costs					
Total non salary-related costs					
Pension contributions					
Total salary-related costs					
Total non salary-related costs					
Payment and allowance costs					
Total salary-related costs					
Total non salary-related costs					
Other benefit costs					
Total salary-related costs					
Total non salary-related costs					
Post-employment benefit costs					
Total salary-related costs					
Total non salary-related costs					
TOTAL BASE SALARY COSTS					
Total salary-related costs					
Total non salary-related costs					
TOTAL BASE YEAR COSTS					

During negotiations, the roll-up factor can be used to provide a quick, yet accurate estimate for the total cost impact of the change to the base salary. Rather than running the ATB calculation for every salary-related benefit, a single calculation using the roll-up factor or costs of all salary-related benefits will provide the bargaining team with information about the total cost impact of the ATB.

Step-by-Step Costing Considerations

Step 5 – Premium Pay

When confirming the total annual costs of premium pay, the costing team will have to assess which sources of compensation payments were central to operations. Academic staff may earn extra payments from a variety of sources, including research grants, professional (non-credit) programs, and similar 'soft money' revenue generating activities. In general, the union should be cautious about including soft money revenue sources in the Base Year Model compensation structure.

While not all academic staff will earn premium pay during any given reference period, the cost associated with each premium is averaged over the entire bargaining unit on an FTE basis. This is the case for every component of compensation in the Base Year Model.

One method for confirming the total annual costs for each component of premium is to multiply the number of units of work (overload courses, stipends, etc.) by the average rate for each component. This can also provide the costing team with a comparative assessment of the value of teaching overload courses versus the value of teaching as part of the academic staff member's normal workload.

Component of compensation: Premium pay							
	Salary-related?	**Units**	**Rate**	**Total annual costs**	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Premium 1	☐						
Stipend 1	☐						
Stipend 2	☐						
Overload 1	☐						
Overload 2	☐						

Summary for category: Premium pay				
	Total annual costs	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Total salary-related costs				
Total non salary-related costs				
TOTAL COSTS OF PREMIUM PAY				

The template worksheet will automatically populate the summary section based on the calculations of each component of compensation. The summary divides the components between salary-related and non salary-related provided the check boxes have been marked in the main worksheet area.

Step 6 – Insured Benefits

In confirming the total annual costs of insured benefits, using the experience data from the previous academic year may not provide an appropriate benchmark for current premium costs going forward. Insured benefit premiums tend to increase every year – substantially in the case of drug benefits and LTD. Instead, a snapshot date of the premium costs at the expiry of the current collective agreement tends to provide a better benchmark going forward. When using monthly premiums, it will be necessary to 'build up' to the total annual costs for each component of insured compensation.

To calculate total annual costs, include only the employees in the bargaining unit eligible for the benefit and for whom the employer was obligated to make payments. In some situations, employees may have the option to take pay in lieu of benefits. In this case, use the experience data for the actual number of employees provided the insured benefit rather than the total number of eligible employees in the bargaining unit. Likewise, some collective agreements provide benefits to part-time employees on a pro-rated basis. These costs will need to be converted to FTE and added to the total annual costs.

Component of compensation: Insured benefits							

Coverage	Single	Family
Percentage		

Insured Benefit	Salary-related?	Monthly rate (single)	Monthly rate (family)	Total annual costs	Average annual costs per FTE	Average course (credit) cost per FTE	% base salaries
Supplemental health							
Dental							
Prescription drugs							
Vision							
Long-term disability							
Basic life							

Summary for category: Insured benefits				
	Total annual costs	Average annual costs per FTE	Average course (credit) cost per FTE	% base salaries
Total salary related costs				
Total non salary-related costs				
TOTAL COSTS OF INSURED BENEFITS				

One last consideration for insured benefits is that the template facilitates calculations of the employer's weighted average costs for premium payments based on the rates and enrolment information gathered. If premium rates differ for family and individual enrolees, the enrolment ratios and rates can be entered to calculate the weighted average premium. The weighted premium rates are then used to express the costs of each component of insured benefit compensation. Once again, the worksheet template summarizes the total for all the benefits in this category of compensation. However, the simpler approach of gathering information about the total annual premium costs associated with each insured benefit will be sufficient in most cases.

Step 7 – Statutory Benefits

The union should request the total amount paid on behalf of bargaining unit members for each statutory benefit rather than attempting to calculate the total annual costs based on payment rates. However, the union costing team should still collect information about key figures, such as the YMPE and the YMIE, as these caps are required to determine if the benefits are salary-related. If the average annual salary by headcount (HC) is below the YMIE or YMPE (less the annual base exemption), then the benefit is salary-related.

Component of compensation: Statutory benefits						
		Value	**Total annual costs**	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Canada Pension Plan *Based on headcount (HC)*	Rate					
	ABE					
	YMPE					
	YPE					
Employment Insurance *Based on headcount (HC)*	Rate					
	YMIE					
Employer Health Tax	Rate					
Workers' Compensation	Rate					

Summary for Category: Statutory benefits				
	Total annual costs	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Total salary-related costs				
Total non salary-related costs				
TOTAL STATUTORY BENEFIT COSTS				

Payroll-based statutory benefits, such as provinces with an Employer Health Tax and most Workers' Compensation premiums, are salary-related.

Step 8 – Pension

Begin by confirming that the total annual costs includes only the employer's portion of the regular contribution rates. To confirm the accuracy, the union can build up the annual cost based upon the contribution rates and the average annual salary. It is important to note that most pension contribution rates 'wrap around' the CPP, requiring higher contributions for earnings above the CPP's YMPE. Generally, pension benefits are a salary-related benefit and can represent a significant source of roll-up costs.

Component of compensation: Employer pension contributions						
	Salary-Related?	**Rate**	**Total annual costs**	**Average annual costs per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
> YMPE						
< YMPE						

Summary for category: Employer pension contributions				
	Total annual costs	Average annual costs per FTE	Average course (credit) cost per FTE	% of base salaries
Total salary-related costs				
Total non salary-related costs				
TOTAL COSTS OF EMPLOYER PENSION CONTRIBUTIONS				

Costs associated with pension benefits have been a flash point in bargaining disputes, particularly for plans facing unfunded liabilities. The Base Year Model focuses on specific contributions associated with current pension benefit accruals, not special payments that may be required for solvency or going-concern liabilities. In those situations, the union should retain professional actuarial advice to assess the employer's costing claims.

Step 9 – Annual Payments & Allowances

When confirming the total annual costs for some allowances, the union negotiating team may face the challenging reality that academic staff routinely 'leave money on the table' by failing to claim allowances for which they are eligible. Professional expenses is the classic example of this dilemma since it is not technically a component of compensation but something of value to most academic staff.

Collective agreements typically establish allowance maximums and timeframes for claim submissions. The university or college generally retains any unclaimed allowances and the pattern of unclaimed allowances becomes a factor in the employer's operational budgets. However, for costing purposes, it is better for the union to cost professional expenses and similar allowances at the full potential cost impact rather than discount these benefits based on experience data.[28]

Component of compensation: Annual payments & allowances						
	Salary-related?	Value	Total annual costs	Average annual costs per FTE	Average course (credit) cost per FTE	% of base salaries
Professional expenses						
Education stipend						
Other allowance						

Summary for category: Annual payments & allowances				
	Total annual costs	Average annual costs per FTE	Average course (credit) cost per FTE	% of base salaries
Total salary-related costs				
Total non salary-related costs				
TOTAL COSTS OF PAYMENTS & ALLOWANCES				

28. This does not mean that union negotiators should not use the argument of reduced claims experience during negotiations. Rather, presenting demands for an economic enhancement while asserting that the cost impacts will be less because employees will not claim their entitlements is a weak position to defend.

Step 10 – Other Benefits

As with other categories of compensation, some of the benefits included on this worksheet may apply to only a portion of the bargaining unit. Once again, the total annual costs are averaged across the total bargaining unit (or appointment type in split models). This ensures that the costs associated with this benefit are expressed in the same format as all other components of compensation.

Component of compensation: Other benefits						
	Salary-related?	**Value**	**Total annual costs**	**Average annual cost per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Other benefit 1						
Other benefit 2						

Summary for category: Other benefits				
	Total annual costs	**Average annual cost per FTE**	**Average course (credit) cost per FTE**	**% of base salaries**
Total salary-related costs				
Total non salary-related costs				
TOTAL COSTS OF OTHER BENEFITS				

Step 11 – Post-Employment Benefits

Confirming the total annual costs of post-employment benefits requires the underlying assumption that the institution's post-employment costs experienced during the reference period provide a good prediction of costs going forward. Again, there is a difference between university or college budgeting practices, which may track total potential liability for deferred benefits and severance payments, and costing practices based on experience data from the reference period.

Component of compensation: Post-employment benefits						
	Salary-related?	**Value**	**Total annual costs**	**Average annual cost per FTE**	**Average course (credit) cost per FTE**	**% of base salary**
Severance						
Retiree benefits						

Summary for category: Post-employment benefits				
	Total annual costs	**Average annual cost per FTE**	**Average course (credit) cost per FTE**	**% of base salary**
Total salary-related costs				
Total non salary-related costs				
TOTAL COSTS OF POST-EMPLOYMENT BENEFITS				

Step 12 - The Base Year Model

The Base Year Model uses the summaries of each component of compensation to establish the benchmark cost structure of compensation for academic staff members. These elements are summarized so that the cost structure of compensation can be expressed in terms of base salaries, salary-related and non salary-related benefits, and total compensation costs.

The Base Year Model reflects the structure of compensation and provides a benchmark for assessing the impact of collective bargaining proposals over a multi-year period. The summary template of the Base Year Model includes a column to calculate the cost of each component of compensation as a proportion of total payroll (total salary + total benefits).

How to Use the Information in the Summary Base Year Model

The Base Year Model provides the union negotiating committee with a summary view of the bargaining unit's current compensation structure. While the Base Year Model serves as benchmark to cost collective bargaining proposals during the negotiations process (see Part 4), the model provides other useful information about the structure of compensation.

Compensation structure

By presenting each category of compensation as a proportion of total compensation, union negotiators can quickly assess the structure of compensation in the bargaining unit. This provides important insight into the money for value considerations when developing the mandate and crafting bargaining strategies. For example, the summary Base Year Model displays the costs of insured benefits as a percentage of total compensation costs. As benefits have expanded, it is important to see their relative weight in the total compensation package.

Operational factors

Information about operational factors in the compensation cost structure can also be assessed from the summary Base Year Model. For example, if premium pay for teaching overload constitutes a significant portion of total payroll, then this suggests that the institution relies more on overload teaching than complement expansion.

Roll-up factor

The summary Base Year Model calculates the total roll-up factor for compensation costs in the bargaining unit. This figure can provide a quick estimate of the roll-up costs associated with a change in the base salary.

Equity Considerations

There have been significant advancements in the ability of academic staff associations to address discrimination in salary models and promote greater equity, especially gender equity. There is an important strategic issue related to costing practices and equity considerations. Costing is typically associated with the economic demands represented by the association's bargaining proposals. Equity considerations represent ongoing efforts to eliminate discriminatory treatment in compensation and therefore do not constitute new economic benefits for the affected members.

Including the economic impacts of equity considerations within the costing model, and to some extent including those economic demands within the union's regular monetary proposals, has the potential to conflate the principles of equity with the basic economic impacts of changes to the collective agreement. However, pay equity legislation in most jurisdictions make alternate avenues for addressing discriminatory pay practices within job classifications challenging. An alternate approach, currently enshrined in a range of faculty association collective agreements, is language directing the creation of a joint committee for analyzing equity considerations. In many of these examples, the union negotiates a fund to address anomalous salaries. Strategically, the unions balance the certainty of monies to address the effects of discriminatory compensation practices against other strategies, such as public campaigns or legal claims. Unions should also be cautious regarding language providing market differentials and retention funds as these may be the source of inequities.[29]

Costing models can inform equity considerations, but averaging compensation profiles in the Base Year Model may also mask important information. This reinforces the importance of negotiating language that enables on-going reviews of compensation for equity purposes. Indeed, effective equity practices present an important opportunity for

29. *Bargaining Advisory on Market Differentials & Supplements,* Canadian Association of University Teachers, October 2018.

ongoing union-management costing practices. There is a variety of examples for incorporating compensation equity provisions in the collective agreement. Most establish a joint committee to review potentially anomalous salaries. Some, like the University of Guelph Faculty Association establish basic terms:

> *Letter of Understanding 13 – Joint Salary Review*
>
> *The Parties agree this letter will form part of the Collective Agreement.*
>
> *The Parties agree that within six (6) months of ratification they will commence a Joint Salary Review. The purpose of the review will be to examine the issue of salary anomalies, if any, and make recommendations for correction of any identified anomalies. The work of this committee, including recommendations, will be completed no later than December 2018. The timeline may be extended by mutual agreement.*[30]

In other examples, the union bargained more prescriptive language regarding the methods for determining anomalies such as the terms negotiated by the Queen's University Faculty Association:

> 2.2 The allocation from the Anomalies Side-Table Fund shall be performed by an Anomalies Side-Table of the JCAA pursuant to the following terms:
>
> a. *The Anomalies Side-Table shall compare all salaries to a model based on years of experience, merit and discipline group. Applications shall not be required nor entertained for Anomalies Side-Table decisions.*
>
> b. *Years of Experience shall be as determined by the Deans according to the most recent Years of Experience Guidelines approved by the JCAA.*
>
> c. *No awards shall be made to any Member who is not identified by the model as anomalous. Anomalous is defined as a salary that is at least 5% below the predicted salary for the Member. No requests for special adjustments will be entertained, nor recommendations made with respect to such adjustments.*[31]

Access to the necessary salary information is essential and strengthened by the creation of these joint union-management committees. The challenge, as with most committee structures, is making sure the committees operate in a timely and effective manner. Through costing procedures, the union can create greater independent capacity to administer these provisions in the collective agreement.

30. University of Guelph Faculty Association Collective Agreement, July 1, 2017 - June 30, 2021, Letter of Understanding 13 (p. 190).
31. Queen's University Faculty Association Collective Agreement, May 1, 2019 - 2022, Appendix K, Article 2.2 a, b, c. (p. 260).

Costing Timeline

Preparation Phase

Six (6) Months Prior to Expiry

- Begin building Base Year Model costing spreadsheet:
  - Create profile of all appointment types in the bargaining unit
  - Identify all components of compensation
  - Identify data sources and special considerations
- Draft and update data request letter
- Update member database from association records

Three (3) Months Prior to Expiry

- Send employer notice to bargain
- Information / data request
- Update bargaining unit database with employer data inputs
- Calculate summary information
- Cost salary range changes (1% - 2% - 3% - 4% - 5%)
- Consult independent benefit carrier / broker
- Solicit input and develop mandate

Formal Bargaining

- Request cost estimates for employer proposals
- Conduct independent cost estimate of employer proposals
- Estimate cost 'gap' between union and employer proposals

Conciliation & Interest Arbitration

- Document the costing steps and procedures in the arbitration brief
- Use total compensation for comparators
- Highlight key assumptions in the costing model