Testimony of Gary M. Ford
Subcommittee on Health, Employment, Labor, and Pensions
Committee on Education and Labor
July 30, 2008

Good morning. My name is Gary Ford. I am a principal at the Groom Law Group, located in Washington, DC and have practiced in the pensions and benefits area for more than 25 years. I appreciate the opportunity to testify before the Subcommittee this morning regarding the pension plans that are maintained by my client, Northwest Airlines.

Let me begin by saying "thank you" to the Members of this Subcommittee on both sides of the aisle for your persistence and hard work in crafting and ultimately enacting the Pension Protection Act of 2006. From the point of view of Northwest Airlines, the most important provisions of that important legislation are the alternative funding rules for commercial airlines. Under these rules, if an airline and its employee groups elect the alternative funding rules under PPA, then the airline is given extra time to fund the existing liabilities.

On September 14, 2005 Northwest filed a voluntary petition for bankruptcy under Chapter 11 of the United States Bankruptcy Code. Northwest completed its restructuring process and emerged from Chapter 11 protection on May 31, 2007. I am pleased to report that, because you had the foresight to include airline funding provisions in PPA, Northwest has been able to retain all of its defined benefit pension plans after emerging from Chapter 11 protection. As a result, Northwest has not made a pension claim on the Pension Benefit Guaranty Corporation. No Government money has been expended to cover Northwest's pension costs and, most importantly, no employee of Northwest has lost any of his or her accrued pension. The members of this Committee should be commended for your efforts to craft and pass the pension funding legislation that brought about this result. Without it, Northwest would have certainly been forced to terminate its pension plans in order to emerge from bankruptcy.

Since the PPA was enacted, Northwest's contributions totaled approximately $ 87 million. These plans will continue to be funded as required by PPA.

To round out the picture of Northwest's benefit arrangements, you should also be aware that Northwest's employee benefit obligations do not end with the three plans covered by the airline funding rules. Northwest funds 401(k) retirement plans for most of its employees, both union represented and salaried. For most of Northwest's IAM-represented employees Northwest contributes to a separate, multiemployer pension plan.

So what effect would a Northwest-Delta merger have on Northwest's employee benefit obligations and, in particular, on its obligation to fund the three pension plans covered by the PPA airline funding rules? First, it is important to note that the funding requirements and other rules applicable to these three plans would not be altered by a merger with Delta Air Lines. In a merger of Northwest and Delta, the combined company would have responsibility for meeting all legal requirements applicable to the plans, including PPA's funding rules.

Second, there is a potential effect of the merger that would greatly increase the security of Northwest's employee benefits. If one examines the major claims that have been made on the PBGC, a clear pattern emerges. The major claims on the PBGC are not principally a result of something related to the pension plan itself, but rather they are the result of the severe financial distress, culminating in bankruptcy, of the company that sponsors the pension plan. Indeed, they are often driven by the financial distress of an entire industry. It is no exaggeration to say that the key to secure employee benefits in the airline industry is financially strong airlines that can shoulder the cost of those benefits.

The boards of directors at Northwest and Delta, as well as the management teams at both airlines, have concluded that a Delta-Northwest merger would produce a financially stronger airline. As the Chief Executive Officer of Northwest, Douglas Steenland, stated recently, "the combined company will be more financially resilient, better positioned to satisfy customers' demands, and better able to meet the challenges of the future at home and abroad." I will add to Mr. Steenland's list of benefits of a merger an important benefit that is the focus of this hearing: a stronger merged airline will be better able to fund its pension and other employee benefit promises, avoid a PBGC takeover of its pension plans, and provide reliable retirement security to its employees, past and future.

Northwest shares the Subcommittee's interest in protecting the benefits of airline employees. I hope that this short explanation of the current status of Northwest's benefits plans has been helpful. I will be happy to answer any questions that the members of the Subcommittee may have.