Testimony

On the Study entitled:

Measuring the Economic Impact of Pension Reductions and Health Care Cuts on the Salaried Retirees of Delphi Electric Packard Electric Systems from the Mahoning Valley, Ohio

Conducted by

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Before

The Subcommittee on Oversight and Investigations

House Committee on Financial Services

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[I.] Introduction

Chairman Moore, Ranking Member Biggert, and distinguished members of the Subcommittee, thank you for inviting me to share with you how the impending pension and health care reductions by Delphi Packard Electric Systems will impact the social and economic lives of its retirees from the Mahoning Valley, Ohio, in particular, and the Mahoning Valley's economy in general. My name is Frank Akpadock, Ph.D. from Texas A&M, College Station, Texas; and I am a senior research associate and regional scientist at the Center for Urban and Regional Studies, Youngstown State University, Youngstown, Ohio. I have been at the University for over 18 years, mainly conducting pure and applied economic development research studies for the public and private sectors of the Mahoning and Shenango Valleys, the northeast Ohio region, the Midwest and the nation.

[II.] The Mahoning Valley Economy

1. **Population**: For purposes of definition, the Mahoning Valley consists of two counties: Mahoning and Trumbull counties with a 2000 census population of 257,560 and 225,114 respectively, for a combined total of 482,674 people.[1] However, the 2009 population estimate for Mahoning County was 236,735, while Trumbull County was 210,157 for a combined total of **446,892** people.[2] In the aggregate, between 2000 and 2009, the Mahoning Valley sustained a population loss of 35,782, or 7.4%.

2. **Household Income**: In 2008, the median household income for Mahoning and Trumbull counties was $41,419 and $41,419[3] respectively, compared to the state of Ohio median household income of $48,011 for the same period. Also in 2008, the percentage of persons below poverty level in Mahoning and Trumbull counties was respectively 17% and 16%, compared to the state's percentage of 13%.

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1. U.S. Census Bureau: State and County QuickFacts. Data derived Population Estimates, Census of Population and Housing, Small Area Income and Poverty Estimates, State and County Housing Unit Estimates, County Business Patterns, Economic Census, Survey of Business Owners
2. Ibid
3 Ibid

3. **Manufacturers' Shipments**: In 2002, Manufacturers' shipments in the Mahoning Valley (Mahoning and Trumbull counties combined) were $11.1 billion. For the same period, Wholesale Trade Sales in the Mahoning Valley were $3.3 billion; and $4.5 billion in Retail sales.

4. **Housing Foreclosures**: In 2008, the total housing foreclosures by banks were 1,489 in Mahoning County, and 936 in Trumbull County.[4]

5. **Unemployment**: In May 2010, Mahoning County had a labor force of 116,300, out of which 103,000 were employed, for an unemployment rate of about 11.4%; while the City of Youngstown recorded an unemployment rate of 13.3%. For the same period, Trumbull County had a labor force of 106,200, with 93,600 that were employed, for an unemployment rate of 11.9%.[5] Unemployment rates from these counties each exceeded the national rate of nearly 10%.

6. ## The General Economy

The Mahoning Valley's economy has always been manufacturing-based, dating back to the first stoking of the blast furnace in the 1800s. As shown above in 2002, income from the Manufacturers' Shipments of $11.1 billion is three times as much as that from the Wholesale Trades of $3.3 billion; and a little over twice as much as that from the Retail sector. Youngstown, the capital city of Mahoning County, was chartered in 1868, and grew to become the center of steel production west of Alleghenies. In the middle of the nineteenth century, it was one of the fastest-growing economies in the Midwest. That growth slowed to a crawl during the 1973-74 recession period, and completely came to a standstill following the phenomenal corporate restructuring of the U.S. economy in the late 1970s to early 1980s in what was characterized as the *de-industrialization* of the U.S. economy.[6]

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4 U.S. Census Bureau: State and County QuickFacts. Data derived Population Estimates, Census of Population and Housing, Small Area Income and Poverty estimates, State and County Housing Unit Estimates, County Business Patterns, Economic Census, Survey of Business Owners

5 Ohio Department of Job and Family Services, Bureau of Labor market Information

6 Bluestone, B. and Harrison, B. 1982. *The Deindustrialization of America*. New York: basic Books; Cohen, S. and Zysman. 1987. *Manufacturing Matters: The Myth of the Post Industrial Economy*. New York: Basic Books; Piore, M and Sable, C. 1984. *The Second Industrial Divide*. New York: basic Books.

Akpadock indicated that U.S. steel manufacturing companies were experiencing declining demands for their products, because not only were they facing global competition from the newly industrializing countries (NIC) of the Pacific Rim that applied more advanced technology to steel production and sold it for cheaper prices in the U.S. markets, but also because steel-related hardware and software products were systematically being replaced by new breeds of products that were made from plastics, aluminum and other non-steel products. These changes were instrumental in the cataclysmic plant closings nationwide that rendered hundreds of thousands of their employees jobless, especially for those steel mill-based communities in the northeast and Midwest of the country such as Youngstown in the Mahoning Valley.[7]

The Youngstown Sheet and Tube Company, the largest employer in the Valley, closed its doors on September 17, 1977, a day touted regionally as *Black Friday*, when about 5,000 of its employees were laid off. As a propulsive industry in the region, the demise of this mill triggered a tidal wave of economic destruction in Youngstown and the Mahoning Valley in general as other companies and businesses vertically and horizontally integrated with the steel mill operation closed their doors as well, laying off approximately an additional 40,000 of their highly paid blue and white collar employees in the Mahoning Valley.[8] It was the toughest economic time the Mahoning Valley has ever witnessed in its history. For example, Youngstown's population went from 116,000 in 1980, to 82,000 in 2000 as people left the city in droves to seek greener pastures outside the city and the Mahoning Valley as a whole.

[III.] Economic Impact Study Experience

I have conducted numerous economic impact studies in my career for small and large companies and institutions. I would like to cite four (4) examples here as follows:

(1) ***The Regional Economic Impact Analysis of the Youngstown Municipal Airport, Center for Urban and Regional Studies***, 1991. *http://psi.ysu.edu/publications.htm*

I conducted an Economic Impact Study of the then ***Youngstown Municipal Airport*** to assess its financial impact on the Mahoning Valley's economy in 1991 at the request of then-Congressman Jim Traficant. The study's findings were instrumental in the Airport stewardship reorganization from Youngstown Municipal Airport to the current ***Western Reserve Port Authority***.

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7. Akpadock, F. 1993. "The Changing Semantics of a Community Economic Development Strategy: Growth Pole vs. Industrial Targeting Concepts," *Journal of the Community Development Society*, Vol. 24, No. 1: 103-124.
8. Ibid_____2000. "Patrick Ungaro, Bownfield Redevelopment and Revitalization in Youngstown, Ohio" In (J.R. Bowers & W.C. Rich) eds. *Governing Mid-Sized Cities--Studies in Mayoral Leadership.* Boulder: Lynne Rienner Publishers.

(2) ***The Economic Impact Study of the Youngstown/Warren Regional Airpor***t, ***Center for Urban and Regional Studies***, 1999. *http://psi.ysu.edu/publications.htm*

In 1999, I was requested by the Western Reserve Port Authority to conduct another Economic Impact Study of the now-named Youngstown/Warren Regional Airport to include the U.S. Military Reserve Wing of the Airport to assess its strategic importance to the location and its regional economic importance in the Mahoning Valley in the wake of military airbase closings across the country during that period. The study was successfully carried out. Today, the U.S. Military Reserve Wing of the Airport is of national strategic importance in all its ramifications.

(3) The Economic Impact Study of Youngstown State University on the Mahoning and Shenango Valleys, 2000. ***Center for Urban and Regional Studies***, *http://psi.ysu.edu/publications.htm*

In 2000, following a successful impact assessment of the Youngstown/Warren Regional Airport study, my expertise was again tapped by the University administration to assess the Economic Impact of Youngstown State University on the regional economy using ***Income and Expenditure flow variables:***

Income Flows

- State of Ohio Appropriations
- Federal Government Appropriations to the University
- Local and private grants
- Funds from campus events
- Bookstore services
- Tuition, fees and other miscellaneous student charges

Expenditure Flows

- Education and General Expenditures
- Intercollegiate Athletics
- Athletics Concessions
- Athletics Facilities
- Housing Services
- Kilcawley Center
- Parking services
- Bookstore

The study once again proved to Ohio's Education Legislators that higher education in the state needed continuous financial and moral support as a catalyst of economic growth at the local and regional levels. The fiscal and employment impacts affect an increased city tax base that opens

up more government employment positions and increased consumptions of goods and services downstream.

(4) ***Economic Impact Study of Youngstown State University's FY2009-2010 Construction Expenditures of $50 million on the Youngstown-Warren Boardman Metropolitan Statistical Area, 2009. Center for Urban and Regional Studies***, *http://psi.ysu.edu/publications.htm*

YSU President Dr. David Sweet requested that I conduct a study that would measure the economic impact on the Youngstown-Warren-Boardman Metropolitan Statistical Area of the University's FY2009-2010 expenditures of $50 million for general campus refurbishing programs which also encompassed the construction of the new Williamson College of Business Administration building. The study was successfully carried out and found to have strong construction-related fiscal and employment impacts on the Mahoning and Shenango Valleys.

[IV.] Measuring the Economic Impact of Pension Reductions and Health Care Cuts on the Salaried Retirees of Delphi Packard Electric Systems from the Mahoning Valley, Ohio

Overview: The Packard Electric Company started in Warren, Ohio, in 1890 as a company that produced incandescent light bulbs. During this period of growth and change, the company branched out into automobile manufacturing when it built its first car in 1899. In 1902 the car manufacturing division separated from the parent Packard Electric Company. Packard Electric itself was acquired by the General Motors (GM) Company in 1932, supplying GM with the wiring systems for all GM vehicles.

During the 1980s and 1990s the Packard Electric Company expanded rapidly, becoming the leader in the production of wire harnesses, as well as other electrical automotive components, with branch locations nationally and internationally. At its peak, roughly 14,500 salaried and hourly employees worked in the Warren, Ohio, and other Mahoning Valley Packard Electric facilities. By the time Delphi Packard Electric Systems was spun off from General Motors in 1999, about 4,000 employees remained in the Mahoning Valley.

Following the spinoff from GM, Delphi began to experience financial difficulties. The severity of these financial conditions forced Delphi to seek Chapter 11 bankruptcy protection in October 2005, in part because of the company's inability to maintain its pension plans and other legacy costs for retirees. During this time the PBGC (Pension Benefit Guaranty Corporation) was asked to step in to keep Delphi retirees' pensions solvent. The PBGC's move made it obvious to the retirees that the pension plans they had retired under were likely to be seriously reduced. The

PBGC's takeover would only pay them the highest amount allowed by law, rather than the pension benefit plans agreed to between them and the Delphi Company. This has been the crux of the retirees' agitations and frustrations throughout the rank and file of Delphi's current employees and the retirees.[9]

As these retirees' anger and frustrations grow louder and louder across the country because of their perceived risk of the loss of their pension plans, these same frustrations and aggravations are being echoed by all the Mahoning Valley's retirees. Putting it in perspective, the *Buffalo News-McClatchy-Tribune Information Services via COMTEX* of ***July 23, 2009***, succinctly reported that by law, the PBGC would only pay a 65-year old retiree a maximum of $54,000 annually. The paper went on to say "While that cap impacts higher-paid retirees who receive more, a greater number of retirees will be affected by the reduced benefits the agency [PBGC] pays out for each year a worker retired at the age younger than 65." For instance, the report quoted one of the retirees as saying that "the agency's maximum annual payout for someone who retired at 60 is $35,100, or about $19,000 less than someone who retired at 65."

Delphi's defined early employee retirement plans (retiring before the age of 62) included the loss of 6% a year of salary payments. However, a financial compensation called a "bridge," or early retirement supplement, was put in place, which Delphi pays to a retiree until the age of 62 years, when Social Security kicks in. Unfortunately by law, the PBGC does not recognize such financial bridge arrangements for early retirees. This is one of the central arguments in the retirees' opposition to, and rejection of the PBGC's management of their pension benefit payments. During its news release on ***July 22, 2009***, the PBGC announced its plans to resume responsibility for the pension plans of 70,000 workers and retirees of Delphi Corp., the nation's largest producer of automotive parts. The PBGC estimated that for the *Hourly Pension Plan* with 47,000 participants, Delphi had about $3.7 billion in assets, and over $8 billion in liabilities. Out of this amount, the PBGC would be responsible for a maximum disbursement of only $4.0 billion from "the Plan's shortfall of $4.4 billion." Apparently, the $.4 billion shortfall is to be absorbed by the retirees.

[9] The PBGC, a federal corporation created under the Employee Retirement Income Security Act of 1974**,** currently guarantees payment of basic pension benefits earned by 44 million American workers and retirees participating in over 29,000 private-sector defined benefit pension plans. The agency's source of funding is largely from investment returns of companies, and insurance premiums paid by companies that sponsor pension plans.

For the *Salaried Pension Plan*, which covers 20,000 workers and retirees and has an estimated $2.4 billion in assets and $5 billion in liabilities, the agency would be lawfully responsible for about $2.2 billion in payments out of Delphi's "estimated $2.6 billion in underfunding." Again, the remaining $.4 billion shortfall is presumably to be absorbed by the 20,000 salaried workers and retirees.

The PBGC will also be responsible for the payment of four smaller Delphi defined benefit plans with $50 million of underfunding for 2,000 participants, namely: *ASEC Manufacturing Retirement Program, Delphi Mechatronic Systems Retirement Program, Packard–Hughes Interconnect Bargaining Retirement Plan,* and *Packard Hughes Interconnect Non-Bargaining Retirement Plan.* As has been described previously for the first two, their benefit plans, even when paid to the full extent of the law by the PBGC, will not be without the risk of underpayments to these 2,000 participating employees.

> ***SIDEBAR***: *At the initial stage of this study, the full pension payments of both hourly and salaried retirees in the Mahoning Valley were reviewed. However, on September 1, 2009, the IUE-CWA brokered a tentative agreement (for the Hourly Retirees) with the new General Motors (GM) that indicated that the company will "provide baseline security for retirees who are facing the loss of their health care and pensions." Under this agreement, Delphi retirees have a "top-up" from the new GM for retirees whose pensions were taken over by the PBGC. In other words, GM will honor the MOU (Memorandum of Understanding) signed in 2007 that will "ensure that all eligible retirees at Delphi are made whole if the PBGC reduces their pensions." This agreement, unfortunately, leaves the "Salaried Retirees" hanging out to dry, and is therefore the raison d'être for this study.*

[V.] SALARIED RETIRED EMPLOYEES

Out of the 20,000 Delphi salaried pension employees identified by the PBGC, an estimated 1,200 live in the Mahoning Valley, consisting of 471, or 39%, registered members of the Delphi Salaried Retiree Association (DSRA). The age groupings of the registered members are: 42, or 9%, of persons under 55 years old; 109, or 24%, of persons between 55-58 years old; 134, or 28%, of persons between 59-62 years old; and 120, or 25%, of persons between 62-65 years old; while those over 65 years of age make up 14.0% (see Table 1).

TABLE 1

Mahoning Valley Registered Members of the Delphi Salaried Retiree Association (DSRA)

AGE	NUMBER	PERCENTAGE
Under 55	42	9%
55-58	109	24%
59-62	134	28%
62-65	120	25%
Over 65	66	14%
Total	**471**	**100%***

Source: Data from Sampling of 110 hourly, and
50 salaried, Mahoning Valley Delphi Retirees.

*Does not add up to 100 because of rounding of numbers.

SECTION 1

PRE-TAX AND *PRE-PBGC* SALARIED EMPLOYEES' AVERAGE PENSION EARNINGS

SCENARIO I

Currently on average, salaried retirees (up to and including 62 years of age) each receive a **monthly** total base pension of **$3,338** (a base pension income of **$1,926** *plus* a $**1,412** supplement), or **$40,056 a year**. Since there are a total of **817** retirees in this cohort, a pre-tax grand total pension of **$32,725,752, or $32.7 million annually**, was calculated.

Those from 63 to 65 years of age each also receives a **monthly** pre-tax pension of **$3,650** (a base pension of **$2,027** *plus* a Social Security payment of **$1,623**), or **$43,800 a year**. Since there are **239** retirees in this cohort, a pre-tax grand total of **$10,468,200,** or **$10.5 million annually**, was calculated. A pre-tax grand total pension of **$43.2 million annually** for the two cohorts (up to and including age 62, and 63-65 years of age) was calculated. (See Table 2 following.)

TABLE 2

***Pre-Tax* and *Pre-PBGC* Salaried Employee Average Pension Earnings**

AGE	NUMBER OF RETIREES	MONTHLY PENSION	PRE-TAX ANNUAL EARNING	PRE-TAX GRAND ANNUAL TOTAL	PRE-TAX GRAND TOTAL (PRE 62-65)	BASE PENSION		
UP TO 62	**817**	**$3,338**	**$40,056**	**$32.7 million**		**$1,926**	**$1,412**	**Supple-ment**
63 TO 65	**239**	**$3,650**	**$43,800**	**$10.5 million**		**$2,027**	**$1,623**	**Social Security**
SUB-TOTAL	**1,056**				**$43.2 million**			
	144*							
TOTAL	**1,200**							

Source: Data from Sampling of Actual Salaried Pension Recipients during the Retirees' Breakfast Meeting of August 13, 2009.

*12% are over 65 years old and excluded.

POST-TAX AND *PRE-PBGC* SALARIED EMPLOYEES' AVERAGE PENSION EARNINGS

SCENARIO II

In this scenario, we ***assume*** that a **13.5%** federal and state tax will be levied on the retirees' pensions, giving each salaried retiree in this cohort (up to and including 62 years of age) a net income of **$2,887 a month**, or **$34,644 a year**, for a grand total of **$28,304,148,** or **$28.3 million annually** for the 817 retirees in the cohort.

For those 62-65 years of age, each retiree receives **$3,157 a month**, for an **annual** income of **$37,884.** Since there are 239 retirees in this cohort, a grand total of **$9,054,276, or $9.1 million annually**, was calculated. The grand total for the two age cohorts (up to and including age 62, and 63-65 years of age) was **$37.4 million annually** (see Table 3).

TABLE 3

***Post-Tax* and *Pre-PBGC* Salaried Employees' Average Pension Earnings**

AGE	NUMBER OF RETIREES	TOTAL MONTHLY PENSION	FEDERAL AND STATE TAXES 13.5%	POST-TAX ANNUAL EARNING	POST-TAX GRAND ANNUAL TOTAL	POST-TAX GRAND TOTAL (UP TO 62-65)	BASE PENSION		
UP TO 62	817	$3,338	$451	$34,644	$28.3 million		$1,926	$1,412	Supple-ment
63 TO 65	239	$3,650	$493	$37,884	$9.1 million		$2,027	$1,623	Social Security
SUB-TOTAL	1,056					$37.4 million			
	144*								
TOTAL	1,200								

Source: Data from Sampling of Actual Salaried Pension Recipients during the Retirees' Breakfast Meeting of August 13, 2009.

*12% or 144 are over 65 years old and excluded.

[VI] SECTION 2

POST-PBGC AND *PRE-TAX* SALARIED EMPLOYEES' AVERAGE PENSION EARNINGS

This portion of the study discusses pension earnings *after* the PBGC takes over the pension disbursement for salaried Delphi retirees. In the post-PBGC takeover of management of the Delphi retirees' pension, Ringler of the *Tribune* newspaper of July 24, 2009, wrote that "Retirees face cuts of 30 percent to 70 percent in their monthly pension after Wednesday's announcement of the Pension Benefit Guaranty Corp., the federal agency that insures private pensions, that it will take over six Delphi pension plans covering 70,000 workers and retirees including salaried and hourly people."

SCENARIO III

POST-PBGC AND PRE-TAX AVERAGE EARNINGS OF SALARIED RETIREES

In the post-PBGC period, a total *pre-tax* **monthly** pension of **$1,630** (base pension of $1,348 *plus* a $282 supplement) was assessed for each retiree (up to and including 62 years of age), for a total of **$19,560 a year**. Since there are 817 retirees in this group, a grand **annual** total of **$15,980,520,** or **$16.0 million**, was calculated. When the pre-PBGC monthly pension earning of each retiree is compared with the post-PBGC earning, a *difference* or loss of **$1,708 monthly** was calculated, for a total of **$20,496 annually**. For the 817 retirees in this cohort, a grand total post-PBGC pension loss of **$16,745,232, or $16.7 million annually**, was calculated.

In the same manner, the post-PBGC retirees in the 62-65 years of age cohort each receive a pre-tax average income of **$3,245 a month**, or **$38,940 a year**. For the 239 retirees in this cohort, a grand total of **$9,306,660,** or **$9.3 million annually**, was calculated. This results in a loss of **$405 a month** per retiree in the post-PBGC period for a total of **$4,860 annually**. Since there are 239 retirees in this cohort, a grand total loss of **$1,161,540,** or **$1.2 million annually**, was calculated. The grand total loss/difference in pension income for both age cohorts (up to and including age 62, and 63-65 years of age) was **$17.9 million annually** ($16.7 + $1.2 million) (see Table 4).

SIDEBAR:

It should be realized that the loss of $17.9 million in Delphi retirees' income in the post-PBGC takeover of the employee pensions is invariably a loss to both the federal and state government in tax revenues.

TABLE 4

Post-PBGC and *Pre-Tax* Salaried Retirees' Pension Earnings

AGE	NUMBER OF RETIREES	TOTAL MONTHLY PENSION	TOTAL ANNUAL PENSION	GRAND ANNUAL PENSION	COMBINED ANNUAL GRAND TOTAL PENSION LOSS (PRE-62 TO 65)	BASE PENSION		
UP TO 62	**817**	**$1,630**	**$19,560**	**$16.7 million**	**$16.7 million**	**$1,348**	**$ 282**	**Supple-ment**
63 TO 65	**239**	**$3,245**	**$38,940**	**$ 9.3 million**	**$ 1.2 million**	**$1,622**	**$1,623**	**Social Security**
SUB-TOTAL	**1,056**				**$17.9 million**			
	144*							
TOTAL	**1,200**							

Source: Data from Sampling of Actual Salaried Pension Recipients during the Retirees' Breakfast Meeting of August 13, 2009.

*12% are over 65 years old and excluded.

[VII] *SCENARIO IV*

POST-PBGC AND *POST-TAX* SALARIED RETIREES' AVERAGE PENSION EARNINGS

In the post-PBGC takeover and the assumed tax deductions of 13.5% from the retirees' income, each retiree has a **monthly** income of **$1,410** ($1,348 base pension, plus a $282 supplement) for a total of **$16,920 a year**. This cohort consists of 817 retirees, hence the grand **annual** total pension was calculated to be **$13,823,640**, or **$13.8 million annually**.

In the post-tax deductions, each retiree receives **$2,807 a month** from the cohort consisting of 63 to 65 years of age, for a total of **$33,684 a year**. Since this cohort consists of 239 retirees, a grand total pension of **$8,050,476, or $8.1 million annually**, was calculated**.** The grand **annual** total pension for both cohorts (up to and including age 62, and 63-65 years of age) in the post-PBGC and post-tax period amounted to **$21.9 million annually** (see Table 5).

TABLE 5

Post-PBGC and *Post-Tax* Salaried Employees' Average Pension Earnings

AGE	TOTAL RETIREES	PRE-TAX MONTHLY PENSION	TAX (FEDERAL AND STATE) 13.5%	POST-TAX MONTHLY PENSION	ANNUAL TOTAL POST-TAX PENSION	GRAND ANNUAL TOTAL POST-TAX PENSION	COMBINED GRAND ANNUAL TOTAL PENSION (PRE-62 TO 65)	BASE PENSION		
UP TO 62	**817**	**$1,630**	**$220**	**$1,410**	**$16,920**	**$13.8 million**		**$1,348**	**$ 282**	**Supple-ment**
63 TO 65	**239**	**$3,245**	**$438**	**$2,807**	**$33,684**	**$ 8.1 million**		**$1,623**	**$1,623**	**Social Security**
SUB-TOTAL	**1,056**						**$21.9 million**			
	144*									
TOTAL	**1,200**									

Source: Data from Sampling of Actual Salaried Pension Recipients during the Retirees' Breakfast Meeting of August 13, 2009.

*12% or 144 are over 65 years old and excluded.

HEALTH CARE BENEFIT REDUCTIONS/CUTS FOR SALARIED DELPHI RETIREES

The loss of health care benefits is another variable that the salaried Dephi retirees will lose in the event of a takeover of pension management by the PBGC. Based on the skyrocketing cost of health care insurance today, and the fact that buying private insurance is about three times as much as buying from one's employer (on average), about 75% of the salaried Delphi retirees will pay about $4,000 per year or even more in deductibles. This part of the study illustrates that these costs will add to the economic losses that these retirees will face in a post-PBGC takeover. Assuming that, on average, these retirees selected a Gold insurance coverage plan for themselves and their families, each participant would face a monthly deductible of $320, in addition to a monthly out-of-pocket cost (co-pay) of about $330 (doctors' visits, dental, vision, eyeglasses, etc.) for family members. **Monthly**, each retiree is assumed to spend on average, a total of **$650,** or **$7,800 a year**, in out-of-pocket expenses. Since there are a total of 1,056 target retirees, a grand total of **$8,236,800**, **or $8.2 million annually**, was calculated.

[VIII.] Study Methodology and Findings

This study is an analysis of how the economic well-being of 1,056 salaried Delphi retirees living in the Mahoning Valley will be affected in particular, and the Mahoning Valley's economy in general, by the reduction in their defined pension plan and health care cuts due to the Pension Benefit Guaranty Corporation's (PBGC) takeover of these programs as a result of Delphi's filing for Chapter 11 bankruptcy protection.

The **Input-Output** (***I-O***) **RIMS II** model was applied in the estimation of both the fiscal and employment impact multipliers. In the mid-1970s, the Bureau of Economic Analysis (BEA) of the U.S. Department of Commerce developed a benchmark model for estimating regional input-output multipliers known as the Regional Industrial Multiplier System (RIMS), based respectively on the works of Garnick (1970)[10] and Drake (1976).[11] Later, following further refinements and analyses of RIMS, the BEA developed an enhanced form of the former RIMS model, now known as *RIMS II*. [12] RIMS II, like its predecessor, is based on an accounting framework input-output table that shows industry interrelationships associated with the purchase and sale of inputs and outputs in a production process leading to final demand. The RIMS II model is widely used in both the public and private sectors for the estimation of impacts of projects and programs of varying economic sizes.[13] The RIMS II model provides regional industry multipliers for output, employment, and earnings using 500 detailed industries and 38 aggregated industries.

10. Garnick, Daniel H. 1970. "Differential Regional Multiplier Models," *Journal of Regional Science*, Vol.10 (February): 35-47

11. Drake, Ronald L. 1976. "A Short-Cut to Estimates of Regional Input-Output Multipliers," International Regional Science Review, Vol.1 (Fall):1-17

12. U.S. Department of Commerce, Bureau of Economic Analysis1981. "Regional Input-Output Modeling System (RIMS II): Estimation, Evaluation, and Application of a Disaggregated Regional Impact Model." (Washington, D.C.: U.S. Government Printing Office); U.S. Dept. of Commerce BEA. 1981. "Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II), Washington DC

13. Beemiller, R.M. and Ambaris, Z.O. 1985. "A Comparison of RIMS II Input-Output Multipliers based upon 1972 Industrial Relationships with those based on 1977 Relationships>" Paper presented at the 1985 Annual Meeting of the Southern Regional Science Assoc. in Wash. DC, May 9-

A fiscal multiplier of **1.21** was estimated, using the ***RIMS II (I-O) Model.*** This means for every $1 million of retirees' income reductions, an equivalent of $21,000 would be lost to the retirees, and by extension, to the Mahoning Valley's economy due to reduced propensity of these retirees

to consume goods and services produced in the Valley. Since a direct impact of **$26.1 million** was assessed, a total fiscal impact of **$31.6 million** was calculated for a grand total fiscal impact of **$57.7 million** annually.

FISCAL IMPACT ESTIMATES

- Grand Annual Average ***Pre-PBGC*** Total Pension (without Tax) of 1,056 Salaried Delphi Retirees _____ **$43.2 million**
- Grand Annual ***Post-PBGC*** Total Pension (without Tax) of 1,056 Salaried Delphi Retirees _____ **$25.3 million**
- Grand Annual Average Total Loss of Pension Income of 1,056 Salaried Delphi Retirees in the ***Post-PBGC*** Period _____ **$17.9 million**
- Grand Annual Average Total Pension Income of 1,056 Salaried Delphi Retirees in the ***Post-PBGC and Post-Tax*** Period _____ **$21.9 million**
- Average Annual Health Care Cost from Out-of-Pocket Expenses of the 1,056 Salaried Delphi Retirees _____ **$ 8.2 million**
- Estimated Total Loss in a Year _____ **$26.1 million**
- Impact Multiplier _____ **1.21**
- **Annual Gross Fiscal Impact _____ $57.7 million**

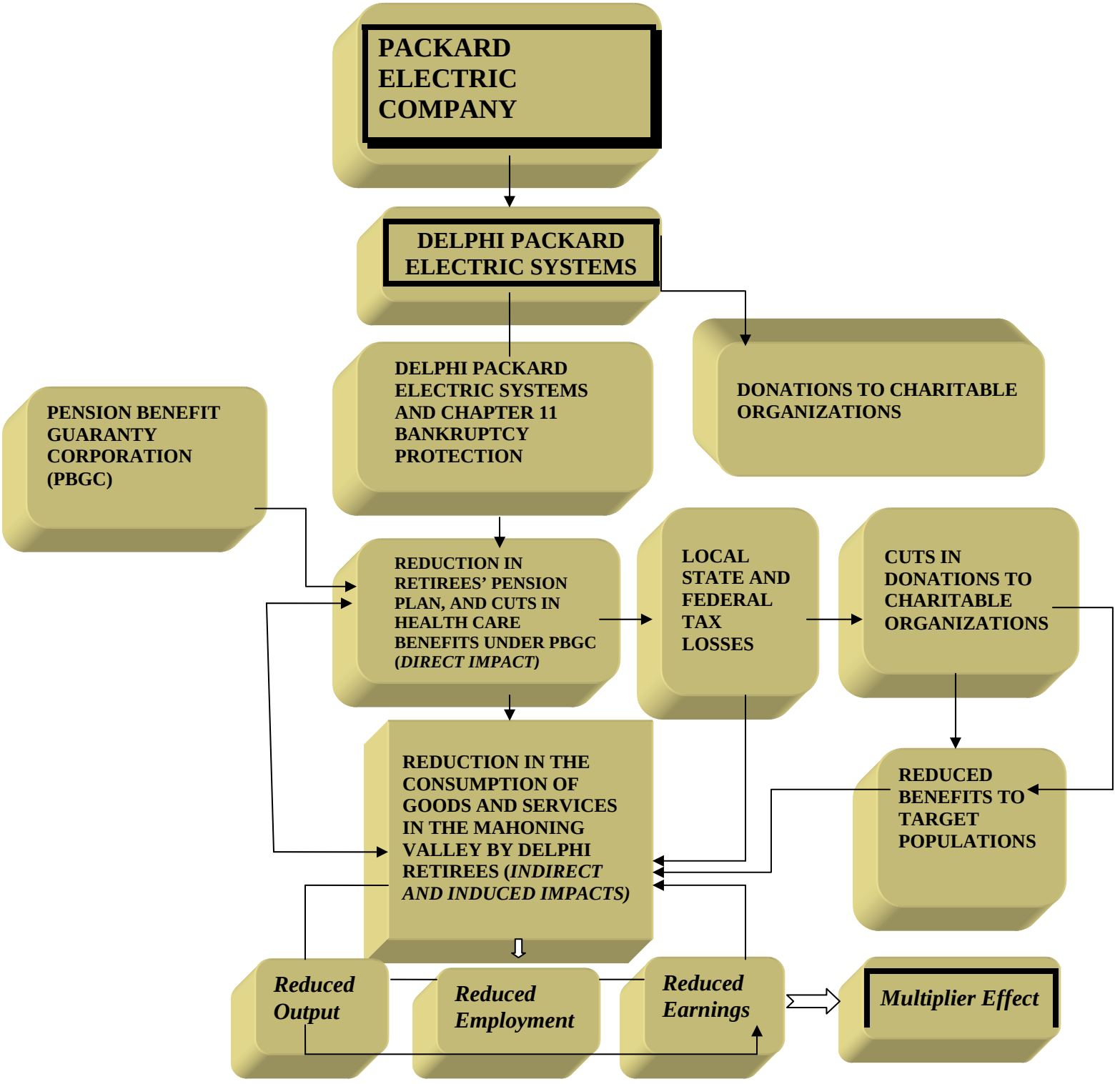
EMPLOYMENT IMPACT ESTIMATES

It was estimated that the annual loss of nearly **$58 million** in pension income by the 1,056 salaried Delphi retirees would result in a reduced consumption of goods and services produced (directly or indirectly) in the Mahoning Valley. Since these goods and services create employment opportunities downstream, an employment multiplier of **1.3** was assessed for this loss. This means that for every **$1 million** of reduced retirees' pension, an equivalent of **30** employment positions that are currently in existence, or would have been created in the future, would be lost. A grand total of **1,740 employment** losses annually was estimated from the primary, secondary, and tertiary (downstream) sectors of the Mahoning Valley (see Fig. 1) for the economic interconnections.

> ***SIDEBAR:*** *It should be noted that if the out-of-pocket expenses of health care plans of the 700 IUE members were factored into the total loss of the salaried retirees, we would have had a different outcome both for the fiscal and employment multipliers, and invariably in the grand total losses.*

FIGURE 1

SCHEMATIC DIAGRAM OF THE ECONOMIC IMPACT OF DELPHI PACKARD ELECTRIC SYSTEMS RETIREES' PENSION REDUCTIONS IN THE MAHONING VALLEY



[IX.] Conclusion

The goal of this study was to show analytically how a reduction in their defined pension plans, and cuts in their health care coverage, will fiscally impact the 1,056 salaried retirees of the Delphi Packard Electric Systems Company from the Mahoning Valley, and by extension, the Mahoning Valley's economy, due to the financial constraints that would reduce the retirees' propensity to consume more goods and services produced in the Mahoning Valley Area, as a result of the takeover of Delphi's pension disbursement by the PBGC. This study used data samplings of current salaried pension recipients during their Breakfast Meeting held *August 13, 2009*, in the Mahoning Valley. It has been estimated that a significant loss of about $58 million and 1,740 employment positions will be lost downstream annually in the Mahoning Valley due to the reduction in the consumption of goods and services produced both within and around the country by these retirees if their pensions are not made whole.

[X.] Recommendations

I commend the Subcommittee for holding this hearing to better understand the problem surrounding the Delphi retirees' dilemma. I also unequivocally suggest that the Delphi retirees' pension guarantees be made ***whole*** because of the financial and associated long-term social problems such loss may cause to the well-being of the affected retirees and the Mahoning Valley's economy at large. It is also suggested that the laws governing Chapter 11 Bankruptcy be revised to close loopholes that hold employees hostage, but permit the employer to go free when a business goes belly-up.

Thank you for the opportunity to speak with you today. I would now be happy to answer any questions you may have.