STATEMENT OF

CAPTAIN JOHN PRATER, PRESIDENT

AIR LINE PILOTS ASSOCIATION, INTERNATIONAL

BEFORE

THE HEALTH, EMPLOYMENT, LABOR AND PENSION

SUBCOMMITTEE

OF

THE EDUCATION AND LABOR COMMITTEE

US HOUSE OF REPRESENTATIVES

WASHINGTON, DC

May 3, 2007

Improving Retirement Security – Modifications To the Pension Protection Act

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Good morning Mr. Chairman and members of the Subcommittee, I am Captain John Prater, President of the Air Line Pilots Association, International. ALPA represents 60,000 professional pilots who fly for 40 airlines in the United States and Canada. On behalf of our union, I want to thank you for the opportunity to testify today about the need for legislation that would put pilots whose defined benefit pension plans have been terminated on equal footing with non-pilots with respect to maximum benefits guaranteed by the Pension Benefit Guaranty Corporation. This issue was left out of the final version of the Pension Protection Act of 2006.

As you know, the airline industry was turned upside down in the wake of the attacks of 9-11. Many carriers filed for bankruptcy and airline employees were forced to make dramatic concessions in wages, benefits and working conditions. While some of our members were "fortunate" enough to have their defined benefit plans frozen, a great many saw their plans terminated because their companies saw no other way out of bankruptcy. Although it seemed at the time a case of your job or your pension, in reality there was no choice. Underfunded plans, while holding significant assets, were terminated at US Airways, United, Aloha and Delta.

Many of our members suffered horrendous losses of up to 75% of their earned benefits under these plan terminations. These same pilots now have little or no time left in their careers to recover from such losses. For example, when the US Airways pilots' defined benefit plan was terminated in 2003, pilots lost $1.9 billion in accrued benefits. United pilots lost $1.8 billion when their plan was terminated in 2004. The pilots at Aloha Airlines lost $33 million in 2005 and their colleagues at Delta lost $2.08 billion in 2006. Airline pilots have lost accrued benefits worth more than $5.5 billion in defined benefit plan terminations since September 11, 2001.

I am here today because pilots are paying a double penalty. Not only have they lost what they had accrued, but they also do not receive the maximum guaranteed benefit payable at their normal retirement age.

In 1974, ERISA provided for the PBGC to guarantee, up to a maximum amount, payment of basic retirement benefits from a terminated defined benefit plan. At that time the maximum guaranteed amount was set at $9,000 per year with a provision for annual cost-of-living adjustments. ERISA also defined the PBGC maximum guarantee as a single life annuity benefit payable at age 65, which was considered "normal" retirement age. Anyone who retires before 65, the "normal" retirement age, has his or her benefit actuarially reduced, and thereby receives a lower benefit payment for as long as the benefit is payable. This is the problem for pilots. A pilot is **required** by Federal Aviation Regulation to end his or her flying career at age 60. Therefore a pilot's "normal" retirement age is not 65 as defined by ERISA, but rather 60 as **required** by the Federal Aviation Administration.

While this limitation may make sense from an actuarial perspective, it is extraordinarily unfair to airline pilots because it ignores the FAA mandatory retirement rule. Through no fault – or choice – of their own, the pensions of affected pilots are being reduced by 35% from what they otherwise would have received without the actuarial reduction. Specifically, for plans that terminated in 2007, the age 65 annual PBGC maximum guarantee is $49,500, while the age 60 annual PBGC maximum guarantee is $32,175. Unfortunately, US Airways, United, Aloha and Delta terminated before 2007 and those maximums are less. In the case of US Airways, the maximum guaranteed a pilot at 60 is $28,585.

As an aside, let me note that even at $49,500 many pilots still are being significantly short-changed in their accrued benefits. At age 60, a career pilot at a major airline might have accrued an annual benefit approaching $100,000. These retirement benefits were earned -- that is bought and paid for -- as deferred income, accrued over the pilots' careers. A further reduction of 35% in an already unfair and inadequate pay-out, because of an actuarial convention, is simply unconscionable.

Efforts were made in the last Congress to correct this problem. S. 685 was introduced in the Senate by Senator Daniel Akaka (D-HI) and H.R. 2926 was introduced by Representative George Miller (D-PA), then the Ranking Member of the full Committee. These measures would have allowed pilots – at age 60 – to receive the maximum benefit guarantee calculated as though they had reached the age of 65. In fact, the Senate voted by a margin of 58-41 to add the text of S. 685 to its version of pension reform legislation on November 16, 2005. Although the House did not include similar language in its pension reform bill, it did overwhelmingly vote three times to instruct its conferees to accept this provision in conference with the Senate. Unfortunately, this was not to be, and the final product, HR. 4, which became P.L. 109-280 on August 17, 2006, did not include the Akaka/Miller language.

We again support the efforts of Senator Akaka and now Chairman Miller. ALPA's goals, then and now, have been as follows:

1. Put airline pilots on equal footing with non-pilots by providing them an unreduced PBGC maximum guarantee at the pilots' recognized "normal" retirement age (that is, the FAA mandatory retirement age).
2. PBGC maximum guarantees for pilots who retire at other than pilots' "normal" retirement age should be adjusted to be actuarially equivalent to full PBGC maximum guarantee payable at the FAA mandatory retirement age.
3. To the extent that higher PBGC maximum guarantees would be payable based upon the increased guarantee for the year in which the plan terminated, pay such increased amounts effective for all payments made by the PBGC after the effective date of the legislation. For example, the US Airways Pilot Plan terminated in the year 2003.

The annual PBGC maximum guarantee at age 65 was $43,977, while the age 60 PBGC maximum guarantee was only $28,585. After enactment of the proposed legislation, the $43,977 annual PBGC maximum would be available to US Airways pilots for benefits beginning at age 60. This could result in higher benefits being paid to pilots who retire in the future, as well as, pilots who have retired in the past.

Altering the maximum guarantee in this manner limits PBGC liability because it does not affect pilots who are old enough that their benefits were not reduced as much as more recent retirees or those approaching retirement. (In technical terms, we are referring to examples such as the Priority Category 3 (PC3) classes of recipients.) PBGC liability also would be capped at the other end of the age spectrum because it does not affect younger pilots, who will not have accrued a benefit level high enough to be limited by the actuarial reduction rule. In other words, it is fairly narrowly targeted to bring relief to those most affected by having the retirement rug pulled out from under them.

Assuming pilots continue to work to their mandated retirement age, which I believe is a fair assumption given the decimation of their defined benefit plans, PBGC's exposure from increasing the PBGC maximum guarantee is very limited in the next four to seven years due to pilots having PC-3 benefits that exceed the current PBGC maximum or that proposed by the legislation. Additionally, the PBGC's exposure in the long term, starting 20 years from now, is also quite limited due to the fact that many affected pilots do not presently have plan benefits that exceed the currently applicable age 60 PBGC maximum guarantees.

The overall impact of the proposed change would be to provide an increased floor or enhanced safety net for those most affected by the plan termination they experienced at the mid point of their careers.

Mr. Chairman, I appreciate the opportunity to testify here today and I would be happy to answer any questions you may have.

Annual PBGC Dollar Guarantees
Based on a Single Life Annuity

Age	2003 Plan Terminations	2004 Plan Terminations	2005 Plan Terminations	2006 Plan Terminations
70	$73,002.24	$73,681.32	$75,718.68	$79,114.08
69	$65,526.12	$66,135.60	$67,964.40	$71,012.04
68	$58,929.48	$59,477.64	$61,122.36	$63,863.16
67	$53,212.44	$53,707.44	$55,192.56	$57,667.44
66	$48,375.00	$48,825.00	$50,175.00	$52,425.00
65	$43,977.24	$44,386.32	$45,613.68	$47,659.08
64	$40,898.88	$41,279.28	$42,420.72	$44,322.96
63	$37,820.40	$38,172.24	$39,227.76	$40,986.84
62	$34,742.04	$35,065.20	$36,034.80	$37,650.72
61	$31,663.56	$31,958.16	$32,841.84	$34,314.48
60	$28,585.20	$28,851.12	$29,648.88	$30,978.36
59	$26,826.12	$27,075.60	$27,824.40	$29,072.04
58	$25,067.04	$25,300.20	$25,999.80	$27,165.72
57	$23,307.96	$23,524.80	$24,175.20	$25,259.28
56	$21,548.88	$21,749.28	$22,350.72	$23,352.96
55	$19,789.80	$19,973.88	$20,526.12	$21,446.64
54	$18,910.20	$19,086.12	$19,613.88	$20,493.36
53	$18,030.72	$18,198.36	$18,701.64	$19,540.20
52	$17,151.12	$17,310.72	$17,789.28	$18,587.04
51	$16,271.52	$16,422.96	$16,877.04	$17,633.88
50	$15,392.04	$15,535.20	$15,964.80	$16,680.72
49	$14,512.44	$14,647.44	$15,052.56	$15,727.44
48	$13,632.96	$13,759.80	$14,140.20	$14,774.28
47	$12,753.36	$12,872.04	$13,227.96	$13,821.12
46	$11,873.88	$11,984.28	$12,315.72	$12,867.96
45	$10,994.28	$11,096.52	$11,403.36	$11,914.80