

# FROM THE HILL

## Legislative and Political Report

### Pension Bill Encounters Opposition in U.S. Senate

Hopes for passage of pension reform legislation, which U.S. Senate leaders had anticipated approving before Columbus Day, diminished when opponents of the bill successfully held up its progress. The bill stoppage, which was unrelated to airline relief, was the result of delay tactics that some lawmakers initiated in protest over a provision that tied corporate credit ratings to pension funding obligations.

Sens. Mike DeWine (R-Ohio) and Barbara Mikulski (D-Md.) blocked action on S.1783, the Pension Security and Transparency Act of 2005, insisting on the removal of legislative language that would require tougher pension financing rules for companies with poor credit ratings. A procedural rule allows individual lawmakers to prevent legislation from advancing to the full Senate.

The bill, which is a bipartisan compromise between leaders of two Senate committees, would give companies with underfunded defined-benefit pension plans more time to meet their funding obligations. By easing the burden on employers that are struggling to keep pension plans fully funded, sponsors of the bill hope to lessen the likelihood of pension defaults. Defined-benefit plans in the United States are estimated to be underfunded by approximately \$450 billion.

Sen. Mike Enzi (R-Wyo.), chairman of the Senate Health, Education, Labor and Pension Committee, and the Committee's ranking member Sen. Edward Kennedy (D-Mass.), along with Sen. Charles Grassley (R-Iowa), chairman of the Senate Finance Committee, and that Committee's ranking member Sen. Max Baucus (D-Mont), introduced the bill in September.

The proposed legislation contains specific provisions for airlines, which would give them 14 years to comply

with funding requirements. In recent years, United Airlines and US Airways terminated employee pension plans during bankruptcy reorganization. Without additional time to reduce underfunding, more airline-employee pension plans could be at risk.

The bill would also help to bolster the Pension Benefit Guaranty Corporation, the government-sponsored pension-insurance program that Congress created in 1974, by increasing the annual insurance premiums that companies pay into the program. The PBGC currently has a \$23.3 billion shortfall against future obligations.

"A primary consideration of this legislation is to prevent pensions from being dumped on the PBGC," says ALPA's president, Capt. Duane Woerth. "Ironically, the needlessly burdensome pension rules, as well as the Bush administration's proposed changes to them, greatly increase the probability of airline failures, which will likely result in the pension disaster we all want to prevent."

Last year, the PBGC had \$62.3 billion in long-term obligations, but only \$39 billion in assets from failed pension plans. According to the Congressional Budget Office, that deficit could widen to \$86.7 billion by 2015 and \$141.9 billion by 2025.

Under the proposed legislation, annual premiums, which currently cost companies \$19 per participant, would be raised to \$30, and companies would be required to disclose more about the financial condition of pension plans to employees. The PBGC guarantees only as much as \$45,614 annually for each employee who retires at the age of 65. Because of the FAA restraints on airline pilots flying past age 60, they are subject to further reductions in their insured benefits. An airline pilot who retires

at age 60 is eligible to receive only as much as \$29,649 annually, just 65 percent of the PBGC-insured benefit for someone retiring at age 65.

In October, Delta and Northwest filed for Chapter 11 bankruptcy protection. Delta has already said that it does not plan to make its next required funding payment to its employee pension plans. If both airlines default on their plans, that will mean an additional \$12.4 billion in unfunded liabilities that the PBGC will have to take on.

Congress relaxed pension-funding rules in January 2004 to give companies a 2-year respite from funding obligations, but the temporary measure will expire at the end of 2005. Proponents of S.1783 had hoped to have a new law in place before then; however, whether they will be able to negotiate a compromise before the current session of Congress ends in December is unclear at press time.

ALPA continues to work to find viable solutions to the pension crisis. S.1783 is the result of an aggressive campaign by ALPA to achieve meaningful pension reform that specifically benefits ALPA members. In addition to this primary legislation, ALPA is working with Sens. Johnny Isakson (R-Ga.), Jay Rockefeller (D-W.Va.), Trent Lott (R-Miss.), and Daniel Akaka (D-Hawaii) on amendments that they would attach to the bill if it gets to the floor of the Senate.

"Outdated pension policies have generated a crisis for thousands of airline employees," says Capt. Woerth. "The pension shortfall is punishing people who have given billions in concessions to help their companies survive. They deserve much better than to have their hard-earned retirement benefits taken from them."

—Gavin Francis, Staff Writer