COMMITTEE ON FINANCE
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PROTECTING WORKER PENSIONS IN THE FAA REAUTHORIZATION BILL

The Senate Finance Committee has included a provision to protect workers' pensions in the tax title (Section 808) of the FAA reauthorization bill currently being considered in the Senate.

FACTS ABOUT AIRLINE PENSION PLANS

Most U.S. commercial airlines have defined benefit pension plans for their employees. Over the past few years, some of these airlines have frozen their plans in connection with bankruptcy reorganizations. When an airline freezes its defined benefit pension plan, employees cannot earn more toward their retirement benefits through that plan, although they may receive the full pension to which they are entitled at the time the plan is frozen. Airlines that have frozen defined benefit pension plans now support 401(k) arrangements with employees that require worker contributions and employer contributions as well.

Employees of airlines that have <u>not</u> frozen their pension plans continue to accrue benefits – and the airlines continue to accrue liabilities to pay out those pensions in the future. But action by Congress in recent years has allowed some airlines to reduce or eliminate their contributions toward covering future pension costs.

LEGISLATIVE HISTORY ON AIRLINE PENSION PLANS

The Pension Protection Act of 2006 provided pension relief to all commercial airlines.

Airlines choosing <u>not</u> to freeze their defined benefit plans are permitted to:

- pay off pension liabilities over 10 years, and
- use an interest rate of 6 percent to determine how much a company has to contribute today to make good on the promised payment that is due when an employee retires.

In the 2007 supplemental appropriations bill, the interest rate for calculation was changed to 8.25 percent for employers that did not freeze their plans.

The higher the assumed interest rate used to calculate future liabilities, the less up-front cash a company has to contribute to cover projected pension costs. Commercial airlines using the 8.25% interest rate are now permitted to reduce their contribution to the pension plan or make no contribution at all for a period of years, even if employees are continuing to accrue benefits. If plans become underfunded, the Pension Benefit Guaranty Corporation – the federal insurer of pension plans – or even taxpayers could have to foot the bill for pension benefits.

THE FINANCE PENSION PROVISION IN THE FAA BILL

<u>The Finance Committee provision in the FAA bill preserves the 8.25 percent assumed interest rate from the 2007 supplemental appropriations bill</u>. <u>Section 808 only requires that the sponsor of an active pension plan using the 8.25 percent rate must, at a minimum, make contributions that cover any pension benefits accrued during a current year</u>.

This will help to protect taxpayers from picking up underfunded pension liabilities. It will also level the playing field with airlines now contributing to employees' 401(k) retirement funds.

The provision does not prohibit any commercial airline from using the more favorable 8.25 percent interest rate. It merely requires the airlines to keep up with additional liabilities incurred as employees earn more pension benefits – protecting workers and taxpayers alike.

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