Testimony of Robert Roach, Jr.

General Vice President of Transportation

International Association of Machinists

and

Aerospace Workers

Before The

Senate Committee on Finance

“Preventing the Next Pension Collapse:

Lessons from the United Airlines Case.”

June 7, 2005
Testimony of
Robert Roach, Jr., General Vice President of Transportation
International Association of Machinists and Aerospace Workers
Before the
Senate Committee on Finance
“Preventing the Next Pension Collapse:
Lessons from the United Airlines Case.”
June 7, 2005

Thank you, Mr. Chairman, and members of this Committee for the opportunity to speak to you today. My name is Robert Roach, Jr., General Vice President of Transportation for the International Association of Machinists and Aerospace Workers (IAM). I am appearing at the request of International President R. Thomas Buffenbarger. The Machinists Union represents more than 100,000 U.S. airline workers in almost every classification, including Ramp Service workers, Mechanics, Public Contact employees and Flight Attendants.

You are hearing testimony this morning from labor leaders, airline executives and government witnesses on the effects of pension termination. But I am probably the only person testifying from first-hand experience. As a TWA employee, my pension plan and the pensions for 36,500 other participants were terminated on January 1, 2001. I will receive a pension check from the Pension Benefit Guaranty Corporation (PBGC), so I know the importance of ensuring this vital agency remains solvent. For thirty years of service, I will receive a pension check of approximately $205.00 a month.
Today, every airline with a government-insured defined benefit pension plan is looking to shed their commitments onto the PBGC and, ultimately, the American taxpayer. If one of our members walked away from their financial commitments like the airlines are doing, they would be held accountable. In contrast, airline executives who abandon billion dollar obligations and induce personal bankruptcies receive accolades from Wall Street. This greed-driven support for hurting American workers and taxpayers must stop.

The airline industry is a cyclical business. Any time the economy slows or fuel prices temporarily climb, the transportation industry is affected. It happens every recession, and it’s the employees who bear the brunt of management’s poor planning. Instead of raising ticket prices to cover these added costs, it has become acceptable for airlines to erode employee wages and benefits.

Current pension funding laws don’t help. The rules create a countercyclical funding burden. Companies aren’t required to put money into pension plans even when they are not 100% funded and, in most cases, when they can afford it. Consequently, a day of reckoning comes when corporations must put in enormous sums to catch up. In the case of United, when that time came the airline was in bankruptcy and could not afford to pay the billions of dollars that would have been required to fund the plan. This loophole should be closed.

This is a problem the IAM identified at United Airlines in 2000. We went to United with a proposal to freeze the current plan, which was then properly funded and
transfer our members into the IAM National Pension Plan, a multi-employer plan that requires a defined contribution from an employer and provides a defined benefit for participants.

Unfortunately for the 30,000 active and retired IAM members at United, the management at that time refused to relinquish control of the pensions to a plan jointly-administered by both union and management trustees. If United heeded the IAM’s warnings five years ago, 30,000 people would have had their pensions protected from the airline’s failure to manage its pension plans and its business.

Pensions are not perks offered by airlines – they are deferred compensation for decades of maintaining a 365-day a year, 24 hour a day operation. Pension benefits were earned through hard work at negotiated reduced wages in exchange for retirement income. There are laws preventing a company from refusing to pay wages for work performed by their employees, but no such laws exist to ensure contractually agreed-to terms for retirement compensation are kept.

Over the course of two US Airways bankruptcies, the carrier successfully shed most of its defined benefit pension plans. The only surviving plan is the multi-employer IAM National Pension Plan that we successfully negotiated for our Fleet Service members. While our members enjoy the security of participating in a fully-funded pension plan, the employer has the benefit of predictable, regular pension contributions. Multi-employer pension plans are established and run only for the purpose of providing
retirement benefits. Since contributions are collectively bargained, employers cannot simply decide to stop funding these plans in order to free up cash for other purposes.

At Continental Airlines, management refused an IAM proposal to fully-fund their defined benefit plan for our Flight Attendants. We are, hopefully, now negotiating for the stability and security of a fully-funded, multi-employer plan as a replacement for Continental’s underfunded plan.

Northwest Airlines has said that without drastic legislative reform, it too will have to terminate its pension plans.

Congress should find ways to allow corporations with under-funded pension plans to become involved in multi-employer pension plans, such as the IAM National Pension Plan, and find a way to reward the multi-employer plans that absorb other plans’ liabilities. Failure to address this problem today will result in the government assisting the participants of failed plans through welfare and other government programs at a later date.

The IAM has been successful in negotiating replacement plans for our members, but it isn’t in anyone’s best interest for one multi-employer plan to absorb all the industry’s failed pension plans. Congress must, therefore, act to protect single employer plans by providing an avenue for these plans’ participants to be involved in a multi-employer plan without adversely affecting that plan.
On behalf of the more than 100,000 airline employees that the IAM represents, I am here asking for your help.

Congress created the PBGC to act as a safety net for companies that could not meet their pension obligations. Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) stated that part of the PBGC’s mission is “to encourage the continuation and maintenance of defined benefit pension plans.” That visionary action that allows the PBGC to protect the pension benefits for more than 34 million workers is now at risk because corporations that were not legally required to pay into their plans did not do so and can now ill afford to make those payments. Those that can afford to pay today are considering dumping their pension liabilities on the federal government and the taxpayers simply to be competitive. This is not acceptable to the Machinists Union, it should not be acceptable to this Committee and I am sure the American taxpayers who ultimately will have to pay for the broken promises made by corporate America won’t find it acceptable.

The Machinists Union supports a moratorium on PBGC-initiated terminations to give Congress time to examine this pressing problem and craft a solution. This would prevent the wholesale dumping of airline pensions.

Currently, the PBGC has no power in bankruptcy to collect money it is owed. A company can simply refuse to pay and force the PBGC to initiate a pension termination to prevent a plan from accruing further pension liabilities.
Congress must make bankruptcy a less attractive mechanism to dump pension obligations on the PBGC. The PBGC needs to have the ability to enforce pension funding rules on a level basis – whether or not a plan sponsor is in bankruptcy – and attach liens on a sponsor’s assets in distress terminations.

Under current bankruptcy laws, a company can shed its pension obligations, successfully restructure and prosper, and the federal government and the taxpayers are still left with the company’s pension liabilities.

The PBGC is required by statute, not choice, into a financial relationship with companies that sponsor pension plans, but unlike other bankruptcy stakeholders does not benefit from a restructured company’s success. In bankruptcy, PBGC claims are treated just like any other unsecured claim. This is not fair to the plan’s beneficiaries, the PBGC or the American taxpayer. Therefore, PBGC claims should be given priority over other unsecured claims.

The PBGC should have the authority and willingness to implement creative labor-management solutions to preserve pension benefits. At United Airlines, the IAM and United negotiated a proposal that would have included restoration funding by the PBGC and transferring United’s pension liabilities to the IAM National Pension Plan. It would have left United in substantially the same position as it is today, following termination, and would have saved the PBGC $500 million dollars while preserving pension benefits for our members. Unfortunately, the PBGC rejected the deal.
Congress must level the playing field between carriers that have already walked away from their plans and those who might be tempted to do so. Funding relief is needed for airlines to avoid even more bankruptcies and pension terminations, but must it be done in a way that fosters benefit security for workers and retirees.

Congress also needs to clarify the PBGC’s authority to restructure a company’s pension obligations when their plans are in trouble. Restoration funding orders can be a useful tool to save pension plans that might otherwise terminate.

Long-term pension funding reform is necessary and must protect benefits while making pension funding more predictable for companies, but immediate action is needed to prevent unnecessary pension terminations out of a perceived competitive need. The Machinists Union is prepared to work with Congress to protect the earned pension benefits of American workers.

I thank the Committee for inviting us to participate in these proceedings and listening to our concerns.

I look forward to your questions.