HOUSE BILL REPORT
HJM 4032

As Reported by House Committee On:
Commerce & Labor

Brief Description: Petitioning for airline pension relief.

Sponsors: Representatives Upthegrove, Schual-Berke, Hasegawa, Chase, Hudgins, Simpson and Conway.

Brief History:

Committee Activity:

Commerce & Labor: 2/1/06 [DP].

Brief Summary of Bill

- Requests the United States Congress to declare its support for and enact federal legislation directed at creating airline pension reform and protecting retirement benefits for all employees in the airline industry.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: Do pass. Signed by 8 members: Representatives Conway, Chair; Wood, Vice Chair; Condotta, Ranking Minority Member; Chandler, Assistant Ranking Minority Member; Crouse, Hudgins, Kenney and McCoy.

Staff: Sarah Dylag (786-7109).

Background:

Pension Benefit Guaranty Corporation

Defined benefit plans are employer-provided retirement plans that provide a guaranteed retirement income based on annual salaries and length of employment. The employer assumes the investment risk and the benefits are guaranteed by the federal Pension Benefit Guaranty Corporation (PBGC). The PBGC is a federal corporation created by the Employee Retirement Income Security Act of 1974 (ERISA). The PBGC currently protects the pensions of employees in single-employer and multiemployer defined benefit pension plans.

Employers can end a pension plan through a process called "plan termination." If the plan is not fully funded and the employer is in financial distress, the employer may apply for a distress termination. The employer must prove to a bankruptcy court or to the PBGC that the employer cannot remain in business unless the plan is terminated. If the application is granted, PBGC will take over the plan as trustee and pay plan benefits, up to the legal limits, using plan assets and PBGC guarantee funds.

Airline Industry

In recent years, the airline industry has faced some bankruptcies. When airlines have gone into bankruptcy, some have applied for distress termination from the PBGC and passed their pensions on to PBGC. Passing the pensions on to the federal government reduces the benefits for some employees from those airlines because the PBGC's insurance program covers only basic pension benefits and is subject to annual dollar caps.

Federal Legislation

The United States Congress recently considered legislation related to pension reforms, including reforms aimed at changing funding rules. The U.S. Senate Pension Security and Transparency Act of 2005 (S.1783) passed the U.S. Senate in mid-November and contained provisions specifically directed at the airline industry. The airline provisions would extend the time allowed for airlines to stabilize their pension plans, providing a longer amount of time before airline pensions would be terminated through the PBGC. Another provision contained in the bill relates to the pensions of airline pilots, who are required to retire at age 60 but currently have their pensions calculated assuming a retirement age of 65.

The United States House companion, the Pension Protection Act (H.2830), passed the U.S. House of Representatives on December 15, 2005, but did not contain provisions specifically directed at the airline industry.

Summary of Bill:

The Legislature requests that Congress declare its support for and enact federal legislation directed at creating airline pension reform and protecting retirement benefits for all employees in the airline industry.

Appropriation: None.

Fiscal Note: Not requested.

Testimony For: (In Support) When airlines go bankrupt, it can change the lives of airline employees. Airline bankruptcy and the passing of pensions on to the PBGC threaten the security of airline employee pensions and risk the financial future of current and retired employees. Having a pension significantly reduced has a significant effect on airline employees and families. There are a number of airline employees in Washington and these are challenges that exist in this state.

All airline employees are affected by this issue and retirement money is at risk. It has become common for airlines to declare bankruptcy and dump their plans on the PBGC. Federal legislation would give airlines more time to do what is right. It would also help pilots, who are forced out at age 60 and then have their retirement benefits calculated as if they retired five years early.

Airlines need more flexibility to deal with pensions so that they do not always have to pass them on to the PBGC. The PBGC is already financially troubled and may face more terminations which will just cause additional challenges. This memorial sends a unified message to Congress about this issue without referencing specific legislation. Proposed federal legislation adds flexibility to deal with pension funding.

(With concerns) This memorial sheds light on a real issue. However, the largest airline in the state has funded its benefit plans. The memorial could be amended to include a statement that federal legislation should not create a competitive advantage for those who have failed to fund their pension benefits.

Testimony Against: None.

Persons Testifying: (In support) Rep. Upthegrove, Prime Sponsor; Ken Rogers, Airline Pilots Association; Clarke Brant; and Chris Cheney.

(With concerns) Dan Coyle, Alaska Airlines.

Persons Signed In To Testify But Not Testifying: None.