

Podcast Transcription

Retirement Education Series: Podcast 1 Captain Ben Douglas and Captain Rich Brown

Captain Chris Lee My guests today are R&I Committee Chairman Captain Ben Douglas and Negotiating Committee member Captain Rich Brown. Thanks for coming, guys.

Captain Ben Douglas Hey, it's good to be here, Chris.

Captain Rich Brown Thanks, Chris.

Captain Chris Lee This podcast is the first in a series that we're doing on retirement education. We're also doing a video series on retirement education. Why are we talking about retirement now?

Captain Ben Douglas So, Chris, we did a post ratification survey after the 2015 contract. What we had found is that the greatest dissatisfaction amongst the pilot group was the lack of improvements in the retirement plans.

Captain Rich Brown You could just go all the way back to the 1999 contract when we first accomplished the pension plan that we have right now. It hasn't changed since then. So this has been a conversation that's been happening within the crew force since the 2006 contract when we didn't have an improvement in our pension at that time. And then we all were of the opinion that we were going to get that improvement in 2015. And then after the 2015 agreement was reached and ratified it obviously had no improvement to the defined benefit plan. And you didn't really even need the survey but we did surveys on it. They told us that that was the number one issue with the TA that had just been ratified. And since then, we've done several more surveys that have shown the same result, that retirement is the number one issue for our crew force. So why are we talking about this now? It's about time to get ready for the 2021 contract and we need to make sure that we have all the information out there available so that we can accomplish an improvement in our defined benefit plan that we have not accomplished in the past.

Captain Chris Lee Well, speaking of getting information, the Company allowed us access to some of that information, correct?

Captain Ben Douglas Yes, that's correct. With the retirement data that the Company provided to us and in the attempt to fully understand our current defined benefit plan and its associated costs, we hired an actuarial firm, [Segal](#), to make sure that we made the most of that opportunity. We took that data back and we came up with different options to be able to increase our defined benefit plan. We took the data from their actuaries. We let our actuaries take a look at it. And then eventually we hired professionals to come in to see what we could do to improve on those benefits. We understood that there were disagreements within the pilot group regarding our retirement plan, and our goal has always been to find a way to develop our retirement plan structure that satisfies the vast majority of us and satisfies the needs of future FedEx pilots.

Captain Rich Brown We went out and we hired [David Blitzstein](#), who has come up with new solutions for different employee groups and unions to improve their defined benefit plans from a traditional model into new kinds of models. [Cheiron](#) had the best modeling

software. It's a proprietary modeling software that would allow us to see what the different kinds of retirement plans would do.

Captain Chris Lee We hear often from pilots, how come we don't go out and find experts? And it seems like for this retirement project, that's exactly what happened.

Captain Ben Douglas We wanted to try to find a fix and as Rich alluded to, we went out and we hired [Dave Blitzstein](#) and [Cheiron](#) be able to provide us some alternatives to the traditional defined benefit formula. There are several different formulas out there, there's a variable accrual formula, variable benefit formula. And so what we wanted to do was create a defined benefit plan concept that would allow us to seek the gains in the plans that we wanted. And we couldn't have done that without going out and seeking those professionals.

Captain Chris Lee As we get into this retirement education series, you're going to talk about various different topics with specifics in more of a deep dive. You were mentioning the experts, as a result of getting with these experts, you guys did present a plan to the Company, correct?

Captain Rich Brown That's right, Chris. When we hired these experts to help us design a plan, we looked at all different kinds of plans out there and...

Captain Chris Lee Well, let me stop you right there. One of the things that we've heard from the pilots is, is that did not happen. But in reality, you guys did look at a lot of different options.

Captain Rich Brown Sure, Chris. When we hired the experts, we didn't hire them with the plan to come up with any particular solution. We hired them to investigate using Cheiron's modeling and Blitzstein's expertise to look at all different options. And they did look at all different options as far as, big defined contribution plans, changing the multiplier on our current formula. They looked at cash balance plans. They looked at flat dollar formulas. They looked at all of the options that are out there, including some that we haven't even talked about or you may not have heard of. And they came up with a couple of different solutions, actually. And it was broadcast to the crew force before, the two main solutions they came up to or an accrual plan and then a benefit plan. I'm purposely not throwing the word variable in the front of that because the variable nature of that is not what people think it is. So they came up with these two plans. The MEC looked at all of these options and they chose a plan that became the Pilot Stabilized Pension Plan and we presented that to the Company. The Company listened to our proposal. They had their own actuarial Company, Mercer, who, by the way, also has a plan similar to the Pilot Stabilized Pension Plan that they sell to other corporations. And Mercer asked a bunch of good questions, but they basically took our numbers and looked at them to see how they were going. And the Company decided that in the current atmosphere, when they're not paying out bonuses to mid-level managers, when they are taking away the defined benefit of the nonunion employees, when they are cutting down the amount of health care for nonunion employees, that that was not a situation where they felt like they could even negotiate or explore an improvement to the pilots' defined benefit plan.

Captain Chris Lee So let's be clear. The Company didn't say no and we don't like the plan or the plan structure or the plan idea. They just said due to current challenges, they were going to pass.

Captain Rich Brown That's correct. It was basically a not right now. And they made no indication that they were not interested in the plan design.

Captain Chris Lee Okay, well, let's get right into it and let's talk about some different types of retirement plans that are available. Ben, what can you tell me about that?

Captain Ben Douglas So, Chris, we got two different types of retirement plans. There's defined benefit plans, and defined contribution plans. So a defined benefit plan has a fixed benefit. It's guaranteed to the employee from the employer. They're required to maintain the funding and the liability of the plan during the time the employees working and then when they retire. Contrast that to a defined contribution plan where the only thing that the employer is required to fund is a percentage of pay based on IRS limits. So it alleviates the Company from taking on all the risk and liability, and it puts it on the employee.

Captain Chris Lee With the defined benefit plans there's typically a formula associated, right?

Captain Ben Douglas That's correct. It's typically a year of service with a pay multiplier. It could either come in the form of a final average earning and years of service or a final pay towards the end of your career. But there is some sort of pay formula associated with a defined benefit plan.

Captain Chris Lee And the assets are pooled in a trust. Is that how that works?

Captain Ben Douglas That's correct. So FedEx hires these fund managers to manage these assets inside of the trust that are protected from creditors. And the payment is paid out from the trust to the employee when they retire. And again, that's a fixed benefit based on the years of service and the final average earnings that the individual makes.

Captain Rich Brown Another thing to remember about that trust is that it's not just a pile of money that FedEx has buried somewhere out at the world headquarters. That money is invested in the market and they pay some Company to invest that money for them. And during any given year, those investment returns are a large portion of what FedEx is required to put into our retirement plan.

Captain Chris Lee So there are different kinds of defined benefit plans. What can you tell me about that?

Captain Ben Douglas So the other type of defined benefit plan is the cash balance plan. We currently don't have one for the pilot groups. The nonpilot employees have one and it has a fixed pay credit with a guaranteed interest rate of return. The difference between the two plans, which are defined benefit plans, it reduces the liability once the employee retires. So basically the employee goes through their career and based on that pay credit and based on that guaranteed rate of return, the Company is going to pay that individual out at the end of their career. So there's no liability once the employee retires versus our formula where the Company has to account for those liabilities actuarially out to age 120.

Captain Chris Lee There's also a flat dollar formula.

Captain Ben Douglas There is a flat dollar formula. Ours is currently \$5200 times 25 years to get you to \$130,000. That is a qualified formula inside of three different formulas that we have available to us to get us the maximum benefit available.

Captain Rich Brown One thing about the defined benefit plans is that the main difference between the defined benefit plan and defined contribution plans in some ways comes down to the fact that the money is pooled and in order to determine how much money you get when you retire out of that pool of money there has to be a defined formula for that money. So all of these different kinds of plans we're talking about really boil down to a different formula for how they determine how much money that you get. So, for instance, the flat dollar is just an amount times years of service versus a cash balance plan, which is an amount that they put in with a guaranteed rate of return. So that provides you with an amount on the other end that they can determine. And then there's different ways to do that in terms of the Pilot Stabilized Pension Plan, which is a percentage of your income with a certain rate of return on it. So when we think about these different kinds of plans, it's really just different formulas. They're all defined benefit plans. They all have the same protections as a defined benefit plan. There's just a different formula to determine how much money you get out when you retire.

Captain Ben Douglas But at the end of the day, one defined benefit plan formula creates less liability and less risk than other formulas. And so if you look at the typical pay formula, year of service formula, that carries a longer liability versus a cash balance plan.

Captain Rich Brown Right. That's a great point, that the different kinds of formulas create different amounts of liability for the Company, which makes certain formulations more attractive to the Company than others. But it doesn't necessarily affect the amount of money that the employee would get out of the plan.

Captain Ben Douglas That's correct.

Captain Chris Lee Okay. In contrast, how's a defined contribution different?

Captain Ben Douglas So the defined contribution shifts all their risk and liability over to the employee. So the Company is only liable for a percentage of pay. In our case, it's 9% to the IRS limit. The IRS limit this year is \$285,000 which is also known as the compensation limit. So that means that if the pilot makes over \$285,000 they're not going to see any benefit, additional benefit associated with that increase or overage over the IRS limit. So the Company has a fixed percentage that they put in. They don't have to worry about the liabilities and managing the assets to derive some sort of fixed benefit at the end of the career of the employee. And so it's a very simple formula. It's on the books as a fixed cost and it reduces the liability and the normal servicing costs of having a defined benefit plan.

Captain Chris Lee Now, do I have a guaranteed benefit with a defined contribution plan?

Captain Ben Douglas So you do not have a guaranteed benefit. You have a guaranteed fixed percentage of pay, but the benefit returns are on you to be able to invest it, to monitor it, to rebalance it. So all the risk is shifted to you, the employee.

Captain Rich Brown The defined contribution plan is basically guaranteed money in where the defined benefit plan is guaranteed money out.

Captain Chris Lee And that makes it somewhat obvious why a company or companies in general are trying to move to plans like that.

Captain Ben Douglas That's correct. So the buzzword is called deleveraging or de-risking. And so you look in corporate America, you look at the reduction in defined benefits, if you don't have a collective bargaining agreement like we do, companies can arbitrarily just terminate or freeze the plan at will. That's what they did with the nonpilot employees.

Captain Chris Lee FedEx has done that recently.

Captain Ben Douglas FedEx has done that. At one time we were all under the same defined benefit plan formula. In the early 2000s, FedEx elected to put the nonpilot employees on that cash balance defined benefit plan, which reduced their liability. They offered that plan to us. We emphatically rejected that plan because that plan wasn't as rich. And since then, since 2020, as a matter of fact, new employees at FedEx, nonpilot employees, are going to an all defined contribution plan. So they're continuing to derisk.

Captain Rich Brown That's right. And I do want to point out that when we turned down that cash balance plan, it's not that a cash balance plan is unable to provide the same benefit that we get. It's that the one that was offered to us was not rich enough. And that's part of what companies have liked to do in the past, is when they change retirement plans over it's easy for the true benefit to get lost in the wash. So we now have information from our program that we developed our plans to prevent that from happening to us so that we know what any change to our retirement formula in a defined benefit plan would cost the Company and would provide to us.

Captain Chris Lee And that's the benefit of hiring the experts and hiring Cheiron and having them produce a model.

Captain Rich Brown That's right.

Captain Chris Lee So we're going to be producing this retirement education series. What's the goal and what can pilots look forward to?

Captain Ben Douglas So, Chris, as we enter contract 2021 negotiations, we just want to make sure that the pilot group is engaged and aware on what they have for their current benefits and what options are out there. And we want to talk about the pros and cons and we want to get to a solution to where we have a better retirement plan on the other side of contract 2021.

Captain Rich Brown That's something that as a pilot group, we need to keep in mind that going into contract 2021, we don't want to be locked into any one option, that we want to be able to consider all these different options because they all have pluses and minuses. So part of the reason for this series is to provide that information so we can make a good determination from whatever comes out of the contract negotiations to see if it meets the needs of what we've determined that we need to have.

Captain Chris Lee So we'll be doing videos and pilots can expect podcasts to go along with those videos. Podcasts will be a deeper dive into the topics where the videos will kind of be more of a macro level. Any final thoughts?

Captain Ben Douglas Absolutely, Chris. Listen, if you see me out in the field at AOC or on the crew bus, please engage me, ask questions. This time around I don't want any crew member to be like I was in contract 2015 asking for things and not having a full idea of

one, what we really had currently at the time and what the options are that are out there and why we're trying to make this point, one of the most important points in this contract negotiation. We want a better benefit. We deserve a better benefit. And I want the pilot group to be completely engaged and informed as we move forward.

Captain Rich Brown And the same goes for me. And the other thing that I would ask is once you've asked your questions and gotten some answers, that you share what you know with the other people in the crew room. The best way to get information out, you know, we try to put this information out in videos and podcasts, but person to person, face to face is the best way to truly get this information out. So if you do your own research, make sure to share that research with the other pilots. The only thing I would ask is come to the source if you have a question and make sure that the stuff that you're putting out is correct.

Captain Chris Lee Well, great. Guys, thanks so much for being here. And thanks for listening to the podcast. If you have a question for Ben or Rich, they both have categories on the [PDR](#). Ben's is under R&I Committee and Rich is under Negotiating Committee. If you need to send them a question, just go to the [PDR](#) and select those categories. As always, be safe out there and we'll see you next time.