Podcast Transcription

Retirement Education Series: Podcast 4

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

Captain Chris Lee As we continue with our retirement education series, in this podcast we'll be focusing on the economic and non-economic risk that's associated with both a DC and a DB plan. Some of the risks we'll discuss today are inflation risk, longevity risk, investment risk, and bankruptcy risk. It's important to understand these risks when choosing a plan that's best for the pilots. Talk to the pilots about inflation risk, what it is, and how it impacts our DB and DC plans.

Captain Ben Douglas Chris, inflation risk is purchasing power risk. And so as you go through time, the dollar starts to lose its purchasing power due to inflation risk. Take a pilot, for example, that is 30 years old. They're going to have a 30 plus year career here at FedEx and they're going to have a retired life expectancy of 30 years. The dollar starts to erode in that benefit.

Captain Chris Lee And that's essentially what's happened with our pension plan.

Captain Ben Douglas That's right. In 1999, that's when the current formula was negotiated. And we have not had an increase in the benefit since that time.

Captain Pat May As far as the benefit and the dollar value back then, just to give an idea of the inflation risk that's discussed here, you take $130,000 benefit and today, if you want to have that same purchasing power as the $130,000 in 1999, you'd need a roughly $200,000 benefit. The way that the pension world has minimized some of these problems have been through cost of living adjustments or COLAs. You've seen them in the private and public sector. However, to go out and try and find a COLA today with a private pension plan is near impossible. You certainly don't see any new ones being negotiated now. So that's why it's an important factor for us when we deal with retirement improvements is how do we find a way to make improvements along the way that address inflation problems?

Captain Chris Lee Another risk we hear about is longevity. What can you tell the pilots about longevity and how it impacts our DB and DC plans?

Captain Kevin Biggins Well, the longevity risk is simply the possibility that a participant will live longer than projected by mortality and life expectancy tables. This can greatly affect funding of the defined benefit plan. And it also increases the chance that the participant will outlive the money in their defined contribution plan.

Captain Chris Lee And who does those mortality and life expectancy tables?

Captain Ben Douglas So the IRS comes up with a life expectancy and mortality table. They regulate or require the amount of funding that has to go into the trust based on the probability of living out to age 120.

Captain Pat May So when you're comparing that risk as far as longevity, there's a substantial difference between a pilot's longevity risk associated with his DC plan versus the DB plan right. Because the company is entirely responsible for the DB longevity and like you mentioned, they can outlive what was projected. On the DC plan when we calculate our burn rate or what we're going to use in retirement we're kind of guessing if you're working to a zero balance in that plan, what your burn rate is going to be. And clearly, you may guess wrong in that longevity. The problem there is you're the only one responsible, whereas the Company has the ability in the defined benefit world to be able to pool all of the employees together and minimize the downside in that longevity risk.

Captain Chris Lee Do we have mortality tables specific to pilots or specific to FedEx pilots?

Captain Ben Douglas No, we don't. There's no separation between our life expectancy or mortality rate vs. the rest of the population. So I know there's been rumors out there that there were studies done that show that we typically die sooner than the average population, but our life expectancy is the same as the rest of the general population.

Captain Rich Brown And additionally, the experience of our current pension plan over the last two and a half decades does not bear out that our pilots are dying any earlier than the general population.

Captain Chris Lee Another risk is investment risk. Explain how investment risk impacts our retirement plans.

Captain Ben Douglas The plan sponsor bears all the investment risk for the defined benefit plan. And so during uptick markets, the sponsor may not have to make any funding contributions to the plan, however, in down markets or times of volatility, the sponsor or the company may find themselves having a negative disparity between the assets and the liabilities. And so when this happens, the company is responsible for making up those differences.

Captain Chris Lee And FedEx has done some of that lately, correct?

Captain Ben Douglas They have. They have borrowed money. They've created bonds. Just recently over the past two years, they've thrown over two billion dollars into the plan.

Captain Kevin Biggins It's important to remember that just like your defined contribution funds, zero defined benefit funds are also in the market. So the fluctuations in the market does affect the investment risk going forward for not only the company but you as a person. So a lot of people don't remember that or think of that when they're thinking of the pension that it's a risk-free investment. Well, it's not. It depends on the market and how well those investments do.

Captain Pat May In theory, you know, we're saying investment risk is an objective risk, but it ends up being a very subjective thing when pilots are looking at their investment portfolio and the defined contribution range, right. So we know pilots, some of them have a very extreme or aggressive investment risk portfolio and some are very conservative. Other folks like to put it on autopilot. But the nice feature is, is that we can offset that investment risk when we weigh it with the totality of the defined benefit plan. So that's why it's important for us to try and keep these things balanced out.

Captain Chris Lee In the unlikely event that FedEx goes into bankruptcy, how does that affect our retirement plans?

Captain Ben Douglas When you talk about all things risk, bankruptcy risks are one of those things that you need to discuss. And so, the risk of the termination of the plan or the plan being frozen during bankruptcy risk is something that is quite real. And they happen during acute or prolonged downturns in the market where the company may not have the ability through either lines of credit or excessive cash or income to fulfill those obligations to the plan. So this could lead to bankruptcy and the company may not survive unless the plan is terminated. Now, that's an extreme case. FedEx has been a good steward of our plan. However, without congressional action, the plan would currently be underfunded.

Captain Kevin Biggins It's important to realize what our passenger brethren went through the last couple of decades with what happens if a plan gets terminated. Well the Pension Benefit Guaranty Corporation steps in, the PBGC, and they will guarantee a certain benefit amount and they will protect benefits above the guarantee if those benefits are funded. So you get the greater of the PBGC guarantee or what funds are remaining in the trust. And there's also a distinction in our plan, how old you are should this occurrence happen. For those who are 58 years or older will have a higher claim to the plan assets before the rest of the pilot group as a whole.

Captain Chris Lee So how does the bankruptcy risk affect the DC plan?

Captain Ben Douglas So with respect to the defined contribution plan, the only jeopardy is losing the employer contributions. So in bankruptcy, they would no longer be providing that nine percent employer nonelective contribution. Anything else with respect to what we own in the plan is ours so it's portable and we wouldn't lose anything with respect to a bankruptcy type scenario with our DC plan.

Captain Chris Lee So the money I have in my DC plan is mine.

Captain Ben Douglas That's correct. That's your money. The only jeopardy is they won't be contributing or adding additional money to the plan.

Captain Chris Lee This question goes to any of you guys. Any final thoughts?

Captain Pat May Yes, Chris. Just some final thoughts on it. The retirement education series that we're presenting is to give the pilots an overall feel for what's important as we move into negotiations and we try to build and improve upon the great retirement benefits that we have as FedEx pilots. Part of that and the important piece for our R&I Committee, the Negotiating Committee, our ALPA national staff, and others that help with this work is really assessing our current risk level as it's built into our current plan design. And then if we go to make changes or as we look at improving certain aspects of the A Plan of the B plan, the defined benefit plan or the defined contribution plan, we always have to look back and see where we've put additional risk. And we're trying to minimize risk across the board in an equal or a balance between these two plans. So that's the big takeaway here really is just not so much the pilots become experts in where this risk exists in retirement benefits. But to understand that there is risk involved with both plans and that we're trying to offset those risks when we develop improvements.

Captain Chris Lee Thanks again for coming, guys. If you have any questions for the R&I Committee or the Negotiating Committee, please go to fdx.alpa.org and utilize the PDR link. Thanks for listening and as always, be safe out there and we'll see you next time.