Podcast Transcription

Retirement Education Series: Podcast 7

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. Pat, remind the pilots of the goals of the retirement education series.

Captain Pat May Yeah Chris, the goal of the retirement education series that we did with video and now podcast was to primarily inform the pilots, give them an overview of the current plan design and look into our negotiating history there, some of the challenges. We looked at various options within the airline industry and with the retirement industry and what benefits could be negotiated. We offered an overview of different plan designs such as DC only plan designs, profit-sharing plans, flat dollar formula. We discussed pension plan challenges, cash balance plans and the PSPP.

Captain Chris Lee Well, you mentioned DC only retirement plans. What are the pros and cons of that?

Captain Ben Douglas So, Chris, with DC only retirement plans, obviously those vested contributions are yours to keep. You invest them any way you see fit. You can take them with you. They're portable. The problem with them is that, like the legacy passenger carriers, they have started to bump up against the IRS limits. And so as their compensation has increased over time, their contributions in the qualified plan has been capped. There's no way to gain more in contribution efficiency unless they get spillover or money outside the plan, which is taxed as ordinary income.

Captain Chris Lee And these DC only plans, that's what a lot of the legacy airlines have now because they lost their pension plans, correct?

Captain Ben Douglas That's right. And so they once had defined benefit plans like we did a hybrid or a combination of defined benefit and defined contribution. But once the legacy airlines went into bankruptcy and their pensions were distress terminated or frozen, they've had to make up ground and loss in those retirement benefits and in compensation. And so they have made ground and now they're finding themselves in a situation where their retirement benefits are now capped.

Captain Chris Lee OK. Let's move on to the pros and cons of a flat dollar formula in a DB plan.

Captain Kevin Biggins Yeah, so, Chris, as many of us know, UPS got an increase in their pension plan via the flat dollar formula. It's important to know in that increase that it's a temporary increase and it's only going to apply to those pilots who are going to retire under their current contract. So it's not a permanent fix. It does have some advantages in that it does provide a fixed benefit at retirement. It is not a risk-free option like all these other options they have risk involved. Some of the employer risks that they bear would include investing, funding and longevity risk. And then for their participants, they would still have inflation and bankruptcy risk.

Captain Chris Lee What are the pros and cons of improving the benefits within our current, our traditional defined benefit plans, such as increasing the service or the FAE cap?

Captain Ben Douglas So, Chris, improving the current pension plan benefit by increasing the service or the FAE cap would increase the benefit. That's obvious. The pilot group is familiar with this plan structure, however, inflation risk remains. And so the benefit amount would need to be renegotiated each contract cycle to adjust for that inflation. And so there's also volatility with funding and accounting for that liability from the Company standpoint. That liability is always on their financials.

Captain Rich Brown Yeah, and it's easy to see that the Company is very concerned about that liability and the volatility involved with the market reactions on our current defined benefit plan as in the past when we have proposed an increase to the final average earnings. The Company's come back with a freeze on our defined pension plan. So we're all familiar with that history where we've been unable to increase the final average earnings cap. And this is going to continue to be problematic going forward into our current negotiations. It doesn't mean that it's not possible to raise the cap. It doesn't mean that we're not willing to go in and raise the cap. It just means that we have to understand the problems involved with that and the headwinds that we'll face as we go in and try to do that. The current structure in our plan is a valuable part of our retirement. It's been a pillar since the 1999 contract and it's done well for a lot of our pilots. But with that in mind, we have to look at the fact that, like Ben said, inflation is eating away at the value of that benefit. And even if we were able to go in and raise the cap this time, as soon as we sign that contract, that value on that benefit starts to decline to the point where even somebody that retires immediately after the contract is signed is going to get a larger retirement benefit than somebody that retires at the end of the contract. And that becomes even more pronounced as we go forward and negotiate the next time around and we have to raise the cap again. I think you can look back at our history and see that even if we think that we can raise the cap this time, raising the cap every time is extremely problematic. And every cycle that we miss is a cycle that we never get back.

Captain Chris Lee Well, Pat, can you expand some about the negotiating history, because improving the current pension plan to the pilots can seem like the easiest solution.

Captain Pat May Yeah, it absolutely is in terms of understanding and what pieces of the formula you can adapt or improve. That's easy to conceptualize. It's easy to calculate. But what we don't see on the other side of that is the accounting and cash problems that it creates for FedEx the minute you make those changes and FedEx has repeatedly, throughout our course of negotiations, our history with them, what FedEx has brought to the table has been one hundred and eighty degrees out in what we've tried to achieve. That's a frozen pension on FedEx's terms or walking away from a pension. In other words, new hires not coming into a brand new pension. Getting rid of the pension entirely for new hires. So that's been their direction. It's not been to seek improvements. The only improvements we've been able to achieve since 1999 on the current traditional plan have been temporary improvements. They're all years of service pay service multipliers. We call them bumps. And then we've had a bump to the bump. You saw one in '99 and another one in '06. And there's a lot of information that goes along with that and why those were done. But again, it's to keep our retirement plans balanced. The defined contribution benefit generationally across all years. But yeah, so far, FedEx has really pushed back hard and tried to step away.

Captain Chris Lee Kevin, what can you tell the pilots about a cash balance plan?

Captain Kevin Biggins Yeah, Chris so a cash balance plan is a hybrid defined benefit plan, means that it shares some characteristics of our defined benefit plan and some from a defined contribution plan. It's like our defined benefit plan in that it does provide a guaranteed benefit for life. And it's like a defined contribution plan in that it's based on a fixed annual contribution, which is similar to our DC plan. So unlike a true DC plan, a cash balance plan, there is a hypothetical or what's called a notional account for each participant, and that is funded annually with a credit through notional contributions, which are usually done through a percentage of payroll, which is similar to a DC plan and also a notional interest, which is done on the prior year's cash balance account at an assumed interest crediting rate. They’re very similar to DB plans, in the fact that they have assets that are placed in a trust. They are also professionally managed. Typically, they're in a more conservative, a safe investment strategy. However, there is flexibility within the plans that can be written that can make them a little more flexible in what they invest in as far as risk tolerance. When you retire you can annuitize the payments and receive a fixed annuity for life, or you can take a lump sum option out if you desire to do so. You can roll that money into another employer plan or into an IRA. Just keep in mind that if that's a choice that you decide to make in these plans, that you would then be taking on the risk of longevity and inflation.

Captain Chris Lee Pat, we also discussed a proposed PSPP plan. What are the pros and cons of that plan?

Captain Pat May Chris, the proposed Pilot Stabilized Pension Plan would remove the service cap and the FAE cap or the final average earnings cap, which limits the benefit accrued with the current pension plan design. So the PSPP plan structure self-adjusts for inflation, which the current pension plan doesn't do, and that self-adjustment we compare it to, say, a COLA or cost of living adjustment but really, the mechanism has to do with the typically increasing IRS limits and the increasing earnings of the pilots. So those two are going up in tandem typically and helping to hedge or match inflation. The PSPP remains nearly fully funded in all market conditions, which really addresses the Company's concern with regard to funding and accounting liability. So the ups and downs and the risk of volatility associated with the current pension plan is reduced quite substantially. And you know, while the investment risk is shifted to the pilot, the plan does provide a guaranteed floor benefit feature to address that investment risk. I'd say that more substantially the disadvantages that we have to go from a current known pension plan, known by all the pilots to one that's unknown and in that, just the human nature is always to be averse to the unknown and that we can't change. You know, no matter how much we educate on the new PSPP, pilots are going to be unfamiliar and not comfortable with that change. So that's a challenge for us. So, Chris, the other and I'd call it more of a difference rather than a disadvantage. You know, the current traditional pension plan, pilots have the ability to get their final average earnings based off of five years. And if a pilot worked a substantial one year in terms of income, that may minimize other years that they need to work towards that high five. Now, the difference really in the PSPP is that each and every year works towards accruing a benefit. However, some of the benefits that accrued early on in the career of a pilot could potentially be worth significantly more based off the share values at the end of that pilot's career. So I say it's more of a difference than a disadvantage.

Captain Rich Brown One more thing to remember about the inflation protection that the PSPP provides is also that due to your ability to maintain your shares in the plan you're able to capture market gains and possibly increase the value of your benefit after you retire. So you're not stuck with a single value in retirement and you may have a hedge against inflation.

Captain Chris Lee Pat, is there any scenario where a pilot would receive less in the proposed PSPP than they would have in the traditional plan?

Captain Pat May No, there's no scenario under the proposed PSPP language that we submitted to the Company. We provided a floor guarantee and a transition lookback and the transition lookback assures those pilots that maybe don't have enough time to achieve full potential in the PSPP that that difference is made up. In other words, when they go to do the calculation, when the pilot commences the benefit, they're going to look at the sum of the PSPP benefit in the frozen current traditional plan benefit. They'll compare that to what the pilot would have obtained in the traditional benefit, had we never moved them out. So if the pilots say only would have obtained a one hundred and ten thousand dollar benefit in the traditional plan if we never moved him out and the sum of the transition piece ends up becoming less than that, then the Company is going to have to buy that pilot up to what the traditional plan would be. How they do it, the mechanism is probably an annuity, but essentially that falls to the Company to make up the difference. And no pilot would earn less than, well, what the pilot would earn today in the traditional pension plan.

Captain Rich Brown You also have to remember, that benefit that's earned in the PSPP can continue to grow in retirement. So what you end up with at the absolute end of your career here is not the amount that you may end up with later on. And why that's important to people is with that growth value, a slightly smaller amount that grows during your retirement will end up being more money over the long run than a slightly larger amount that doesn't grow.

Captain Chris Lee Well, thanks again, guys, and thanks for putting in the time to do the retirement education series. Any final thoughts?

Captain Ben Douglas Yeah, what I'll just say with respect to the PSPP is that the PSPP shares the same risk as any defined benefit plan. However, the plan design in and of itself mitigates those risks and reduces the probability of finding ourselves in an adverse situation, underfunded and things of that nature. So while there is risk involved, this particular defined benefit plan design, the plan design in and of itself mitigates or hedges against that risk.

Captain Rich Brown There's more than one way to improve our retirement benefit, and we hope that you've learned a little bit about the different ways and the pros and cons of each. We are looking for guidance from the pilot group and from the MEC to determine what the way forward is here as far as our negotiations with the Company, with the end goal, no matter what form it takes being to improve our defined benefit retirement plan.

Captain Pat May So you can hear, Chris, that, you know, we have a sizable task ahead of us as we prepare for 2021 negotiations. We have our subject matter experts that are going to devote their full time and effort into developing new plans and improvements with the current retirement benefits that we have. For the pilots, they need to understand these challenges and they need to be part of a unified voice. Discussions about who voted for or against the 2015 contract does absolutely zero for us today in preparation. We did a thorough background. We did lessons learned. We looked at all the previous negotiations, paid particular attention to 2015. We'll capitalize on our strengths there and we'll improve where we had weaknesses. But it's time to move on as a single, unified voice. So that's the big message for the pilots. Start to get prepared just as a professional pilot, as we all are aviators, as we go to learn a new airplane in ITU. Take on this challenge as well in preparation for contract 2021 as we provide the information and we're going to continue to provide resources for the pilots. This is the series on retirement education, but we are going to provide additional resources as well, such as a contract comparison. We'll provide video and podcasts on negotiating under the Railway Labor Act (RLA), specific laws in the RLA that we have to abide by and that the Company has to abide by. We'll discuss mediation and self-help, what those things mean, what cooling off is. We'll have roundtables with our pilots and we'll continue to survey the pilots to figure out what their priorities are. We have to give the MEC the information so they can develop their priorities, which is feedback directly from the pilots, their committees, contract enforcement, all the resources that we have available.

Captain Chris Lee Thanks, everyone, for coming. 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, as always, be safe out there and we'll see you next time.