

TESTIMONY OF DONALD SCOTT YOHE

**Senior Vice President,
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DELTA AIR LINES

BEFORE A HEARING OF THE

**COMMITTEE ON
TRANSPORTATION & INFRASTRUCTURE,
THE AVIATION SUBCOMMITTEE**

U.S. HOUSE OF REPRESENTATIVES

On

**Airline Pensions:
Avoiding Further Collapse**

June 22, 2005

**Delta Air Lines, Inc.
1275 K Street NW
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**House Aviation Subcommittee
Airline Pensions: Avoiding Further Collapse
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**D. Scott Yohe, Senior Vice President
Government Affairs
Delta Air Lines, Inc.**

Thank you for this opportunity to address the pension funding crisis threatening Delta's ability to honor the pension benefits our airline employees and retirees have already earned. A sound resolution of this crisis is essential if we are to successfully restructure our business outside of bankruptcy.

It is a privilege for me to appear today on behalf of 80,000 active and retired Delta people.

We are working closely with our employee and retiree organizations as well as Northwest Airlines and the Air Line Pilots Association in support of a new, sensible pension funding rule. Our shared goal is a transition funding rule that would help us meet our obligations and avoid the transfer of liabilities to the Pension Benefit Guaranty Corporation – a situation that already has occurred at US Airways and United Airlines.

Delta and some other major network carriers are now at a crossroads. Without changes to the current funding rule, the prospects for restructuring outside the bankruptcy process are poor.

At this point, I'd like to offer a brief explanation as to why Delta requires a unique pension funding rule.

Our company's two traditional defined benefit pension plans were actually overfunded as recently as 2000, and pension funding rules discouraged additional contributions to plans determined to be fully funded. However, the combination of historically low interest rates and significant declines in the equity market has created large funding deficits in the plans, triggering accelerated payments, or deficit reduction contributions.

Delta has not been negligent in funding its plans. We made payments above the minimum requirement during the 2001 – 2003 period and payments of \$440 million in 2004. We have already made payments this year of over \$200 million and plan contributions of \$60 million for the balance of 2005. Without changes in the funding rules, the required payments to our two plans over the next three years are projected at \$2.6 billion.

The new funding rules proposed by the Administration and House Republicans are not relevant or helpful for a company like Delta that is now exiting these traditional

plans. They would only worsen our situation and make bankruptcy a more probable outcome.

At Delta, we began the process of moving away from the traditional defined benefit plans we can no longer afford in 2003, replacing them with alternate plans. What is needed as we transition to these new affordable pension plans is a special funding rule that would give us the opportunity to meet our pension obligations under the old plans that have already been earned by our employees.

The appropriate solution is a practical, sensible, airline-specific rule that properly balances the interests of all stakeholders.

Congressman Price has introduced H.R. 2106, the Employee Pension Preservation and Taxpayer Protection Act of 2005, a bill that we believe achieves these objectives.

H.R. 2106 would allow airlines to fund outstanding pension obligations on a more manageable and affordable 25-year schedule, using more stable, long term assumptions.

Delta believes H.R. 2106 offers a workable solution to the crisis by balancing the interests of all parties.

First, employees and retirees would have a greater chance of receiving the full pension benefits they have earned rather than see those benefits reduced, perhaps significantly, in a transfer of liabilities to the PBGC.

Secondly, H.R. 2106 places a primary focus on protecting the PBGC from increased future liabilities. The bill caps PBGC's guarantee at current levels and is designed to prevent the benefit liabilities for the agency from growing.

Let me state clearly and emphatically that Delta is not seeking a subsidy. Instead, we are pursuing the opposite course – one that significantly limits additional PBGC liabilities and allows us to continue funding the benefits our employees and retirees are counting on.

Also, by making it less likely that airlines will transfer additional unfunded liabilities, the bill decreases the risk of a taxpayer funded bailout of the PBGC.

Third, H.R. 2106 would benefit the traveling public by providing a solution that supports stability in our nation's air transportation system as the industry undergoes massive change.

Importantly, it is the network carriers with the heaviest pension funding requirements that provide the vast majority of international air service as well as the primary air transportation link to small and rural communities.

Of Delta's 202 domestic destinations, 50% are small cities with limited service options. Chattanooga, Tennessee; Meridian, Mississippi; Utah; Monroe, Louisiana; Twin Falls, Idaho; Helena, Montana; and Medford, Oregon are just a few examples of communities Delta serves and places that today's low-cost carriers will not because their business models focus on high-density markets.

And finally, H.R. 2106 would benefit Delta by removing an enormous barrier to our ability to access capital markets, a key component in completing the transformation process outside of bankruptcy.

Delta understands the need for transformation and has not been idle. We are taking responsibility for changing our business model to respond to a new marketplace. Delta began making tough but necessary changes in 2002, and by the end of 2004, we had achieved \$2.3 billion in annual revenue and cost benefits. However, appreciating that we were not in a cyclical downturn, but rather in a permanently and fundamentally changed aviation marketplace – due, in part, to changed customer preferences, low-cost carriers and online fare shopping – we launched a new strategic plan in September 2004 that focuses on winning back customer trust and achieving viability. We are on our way to doing both. Our goals are to improve the customers' travel experience and also build on the \$2.3 billion already achieved to reach a total of \$5 billion in annual benefits by 2006, as compared to 2002. In the face of harsh financial realities and increasingly fierce competition, the people of Delta Air Lines are proving their mettle as we transform our company into the right airline for a new era. While a long, tough road still lies ahead, we already have made remarkable progress. We have now targeted all components of that \$5 billion goal.

Record high fuel prices, fierce competition and a pension funding obligation of \$2.6 billion over the next three years for Delta alone make changes to current pension rules crucial to this effort.

We look forward to working with this Committee and others in Congress to establish a solution that avoids a disorderly, chaotic restructuring of the industry and, instead, supports a stronger, healthier air transportation system for this nation and the public it serves.

Thank you and now I'll try to answer any questions Members of the Committee may have.