

STATEMENT OF CAPTAIN MARK SCHULER, US AIRWAYS, INC.
BEFORE THE U.S. SENATE COMMITTEE ON FINANCE
ON
THE EFFECT OF PILOT PENSION PLAN TERMINATION
AT US AIRWAYS

MARCH 11, 2003

I am Captain Mark Schuler of US Airways. Accompanying me is Captain Pete McGuirk, also of US Airways, and a member of the Retirement and Insurance Committee of the US Airways Air Line Pilots Association. I appreciate the invitation of Chairman Grassley and this committee, to discuss the effect of terminating the pilots' pension plan on myself and my colleagues at US Airways.

As members of the committee are aware, US Airways is currently operating in chapter 11 of the bankruptcy code, and plans to emerge from bankruptcy on March 31, 2003. The company has petitioned the Air Transportation Stabilization Board for approval of a 900 million dollar seven year loan guarantee to secure exit financing. ATSB approval of the loan guarantee and additional debtor in possession financing is contingent in part upon successful resolution of the pilots' pension issue. On January 31, 2003 US Airways announced its intention to terminate the pilot's pension plan effective March 31, 2003. Although the company met its minimum legal funding requirements, the drop in the stock market and low interest rates created a pilots pension funding deficit of \$575 million in 2004, and \$333 million in 2005. The bankruptcy court of Virginia approved this termination in a decision March 1.

The company's decision to terminate the plan followed significant restructuring of labor agreements at US Airways in two rounds of negotiations. In each round of these negotiations, the pilot took the lead among the labor groups and agreed to a 33% pay cut

and significant reductions in work rules. The company and the pilot group also agreed to a revised and reduced retirement plan. All of these concessions together will save US Airways \$645 million annually, reducing the cost of employing a pilot at the company by nearly 46%. Downsizing the airline also resulted in many pilots moving from captain to first officer positions, generating a significant loss of pay. However, the most painful effect of the restructuring was the furlough of several thousand employees, including 1827 pilots.

After unprecedented contract concessions and furloughs, the pilot group now faces termination of the pension we have planned on for our entire careers. Assumption of the plan by the Pension Benefit Guaranty Corporation presents US Airways pilots with an enormous loss of pension benefits. The formula for calculating the benefits includes variables such as a pilot's age, time of employment and projected earnings, which depend on one's seniority position. Therefore, it is difficult to capture a single profile as illustrative of the group. However, all pilots must retire at age 60. This has the effect of reducing the PBGC maximum payment. In my own case, my PBGC benefit at age 60 represents a 67% reduction in my retirement benefits compared to the revised retirement plan reached through a collective bargaining agreement between the union and the company in December 2002. That agreement required amortizing the pension deficit to a 30 year term instead of the current 7 year time frame. The PBGC declined to approve this restoration funding.

With the announcement to terminate the pilots' pension the company proposed a defined contribution plan to supplement the PBGC guarantee. This plan provides retirement benefits below those of the agreement reached in December 2002. It requires an

investment return of 8% to reach the planned targets, and is funded only going forward until a pilot retires at age 60.

If a plan similar to this is created, many pilots lose the potential benefit of this supplement to the PBGC guarantee. First Officer Charles Couch, who at 58 must retire in 2 years, will realize a 56% loss of retirement benefits with the PBGC maximum payment. This monthly maximum payment for First Officer Couch will be \$2,382 per month, down from \$5,409. Assuming a replacement plan is created requiring an 8% return and the funding for that plan begins April 1, 2003 he will have only two years to earn any additional pension benefits. Captain Mike Fairley's was a veteran of Eastern Airlines and the Trump Shuttle. He will shortly be 60 years old, and will receive a PBGC payment from the Eastern plan, which was terminated when the company went out of business. Trump Shuttle was acquired by US Airways in 2000. Assuming the PBGC will provide a payment from both the Eastern and US Airways plan Captain Fairley's benefits are reduced from an anticipated benefit of \$5,880 to \$3,760 per month. If dual payments are not allowed, his benefit is further reduced to \$2,910 monthly. In either case, Captain Fairley retires in June 2003, and has virtually no opportunity to accumulate increased pension fund earnings.

When I joined US Airways in 1985 I was fulfilling a life long dream to fly for a major carrier. Pilots plan their careers with a single carrier because moving laterally to another company is not possible. A move requires starting again at the bottom of a seniority list, and a pilot's seniority determines crew assignment and earning potential. As I mentioned earlier, pilots are required by law to retire at age 60. We must undergo semi-annual flight physicals, and risk the loss of our license and profession from medical disqualification.

We spend a career committed to the safety of our passengers, and look forward to the pension earned under our provisions of our contract. Now we face the loss of that earned pension, and major losses in our retirement benefits. Without an opportunity to plan earlier for this change in our retirement plan, many will face a significant loss of retirement security.

The agreement reached between ALPA and the company in December 2002 reducing the existing pension plan would significantly mitigate the loss of pay and benefits facing the pilot group. This change is possible under the provisions of S-119, which would permit restoration funding by amortizing the funding requirements over a period of 30 years.

This would be a win for the pilot group, and a win for the company. This solution would also avoid the need for the PBGC to take over another distressed plan. I would like to thank the committee for this opportunity to testify today, and for your consideration of the situation faced by US Airways pilots.