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Mr. Chairman, Senator Baucus and members of the Committee, thank you for the opportunity to testify today. My name is Doug Steenland, and I am the President and Chief Executive Officer at Northwest Airlines, on whose behalf I am speaking today.

Northwest is the world's fourth largest airline, with approximately $11 billion in operating revenues, 39,000 employees and an additional 30,000 people that participate in our defined benefit pension plans. Northwest has 70,339 plan participants in our three defined benefit plans.

Since before deregulation of our industry, Northwest and other airlines have provided employees traditional defined benefit pension plans, which pay retirees a specified amount every month. Today, however, Northwest's and other airlines' defined benefit plans are in critical condition. As you know, both United Airlines and US Airways have already terminated their defined benefit plans in bankruptcy and transferred them to the PBGC. Absent immediate action by Congress, the defined benefit plans at Northwest and at other carriers may very well suffer the same fate.

Mr. Chairman, I am convinced that there is a sensible path out of the difficulty we all find ourselves in. Let me tell you how we got here, and how we can get out.

At the end of 1999, airline industry defined benefit plans held $32.6 billion in assets to support $32.0 billion in projected benefit obligations ("PBO"). In other words, the defined benefit plans of the major airlines were more than 100 percent funded, on average. Northwest's plans, in the aggregate, were more than 100% funded through 2000.

Today, that same PBO funded level for airline defined benefit plans has dipped to less than 60 percent. At the end of plan year 2004, the plans of the major airlines had only $29.8 billion of assets to support PBO of $50.6 billion. At the end of 2004, Northwest's plans were also funded at less than 60 percent. We have $5.5 billion of assets to support PBO of $9.2 billion.

What happened?

- First, for the first time since before the Second World War, the equity markets declined for three consecutive years, decimating pension plan investment performance.

- Second, market interest rates, which are used to discount pension liabilities to a present value, fell to 40-year lows. Because of the inverse relationship between discount rates and the value of pension liabilities, the measured present value of defined benefit plan liabilities skyrocketed.

- Third, based on the ostensibly sound funded condition of our plans and the then prosperous times for the industry, the airlines and their unions agreed to increase pension benefits.

- Fourth, after September 11th, 2001, the airlines did not have access to the capital markets to the extent that we would have needed to fund our plans.

As a result of these events, the deficit reduction contribution or DRC rules kicked in and required that Northwest and other carriers make massive additional contributions to its defined benefit plans that we could not afford. In fact, the DRC requires a company to make very large catch-up contributions to its defined benefit plans at a time when the company can least afford to make those payments.

It is difficult to overstate how profoundly the DRC has impacted the funding or, more precisely, the underfunding – of our defined benefit plans. It is as if Congress had issued an edict to homeowners with 30 year mortgages that, if the value of their homes drop below 80% of the purchase price (for whatever reason), their loan will be accelerated such that the balance will become due in just three to five years. Worse yet, the accelerated funding kicks in at a time when homeowners will likely find it most difficult to repay the loans because of the very same adverse economic circumstances that caused the value of their home to drop. On top of that the DRC imposes an artificially low interest rate which results in overstating pension liabilities.

In fact, when the DRC kicked in, the airline industry was, and remains today, in the midst of its worst financial crisis ever. The reasons for this are well known, and include: (i) record high oil prices; (ii) the effects of September 11; (iii) the effects of the Iraq war; (iv) SARS, and (v) price competition in major markets from the so-called "low-cost carriers" – which, among other things, do not provide their employees a defined benefit pension plan. The so-called low cost carriers all provide defined contribution plans and are therefore not subject to the DRC.

In short, the current funding rules are too volatile, unpredictable, inflexible and expensive for our company to survive and compete in the modern, deregulated airline industry that demands that we deliver service to our customers at competitive prices.

Defined benefit plans are one of the last vestiges of the airline regulation era. Northwest has concluded that defined benefit plans simply do not work for an industry that is as competitive and as vulnerable to forces, ranging from terrorism to international oil prices, that are largely beyond its control, as the airline industry.

Given this reality, Northwest could be left with a stark choice:

- We can follow United Airlines and US Airways, file for bankruptcy and apply to terminate our defined benefit plans. We all know that this is a lose-lose approach: our retirees' and workers' pensions will be reduced to the PBGC guarantee level, and the PBGC will be left to assert a claim for pension underfunding that will be satisfied in the bankruptcy process with "pennies on the dollar"; or

- Congress can enact legislation that allows us to fully fund our defined benefit plans, and to make a gradual and orderly transition from defined benefit plans, while at the same time protecting our employees, retirees, and the PBGC.

Working with our labor unions and other airlines, we have developed a proposal that would allow us to follow the second course. We are grateful to Senator Isakson and Senator Rockefeller for introducing legislation that embraces these ideas. The proposal would provide stable, predictable funding rules that airlines can afford, while at the same time protecting plan participants and capping the exposure of the PBGC. Specifically, the proposal would:

- stop adding to the underfunding of airline plans by encouraging airlines and their affected unions to "freeze" their plans, ceasing future benefit accruals;

- in addition to freezing future accruals, protect the PBGC from any worsening of its exposure by freezing the PBGC guarantee; and

- permit airlines to "refinance" frozen and already-existing pension obligations by extending the term of our pension "mortgage" from its current DRC 3-5 year amortization period to a longer amortization period.

Under this proposal, retirees and plan participants would not have their benefits cut to the PBGC guarantee level. They would receive the benefit they had earned to the date of the freeze. Retirees would be protected. In addition, the PBGC will be in better shape financially since its liability will be capped, and each payment that an airline makes to the plan will reduce that liability. The alternative is the "pennies on the dollar" it would receive under the termination of our plans in bankruptcy. Finally, the airlines would have a better chance of avoiding the cost of a bankruptcy.

We are thankful for your efforts in 2004 to provide temporary pension funding relief of the DRC to the airlines. This legislative effort recognized that the DRC is broken and needs to be fixed.

We respect and appreciate the Administration's proposals to reform the pension funding rules. But these rules are still too expensive, too volatile and too unpredictable for the airline industry. As a result, we must respectfully urge Congress to enact an airline proposal along the lines I have described.

To summarize, Mr. Chairman, we are not seeking a "subsidy" or a "bailout" from the government. Just the opposite. We are asking for a responsible alternative to current law that lets us pay our pension liabilities ourselves, versus shifting those obligations onto a government agency.

I appreciate the opportunity to present our views to the Committee, and I am available to answer any questions that you may have.