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Chairman Inouye, Vice Chairman Stevens, Members of the Committee, my name is Vince Snowbarger and I am the Deputy Director for Operations at the Pension Benefit Guaranty Corporation ("PBGC" or "the Corporation").

Thank you for the opportunity to appear before the Committee today to discuss the challenges facing Hawaii's air service market. My testimony will focus on matters impacting the 4,000 participants and beneficiaries in the three defined benefit pension plans sponsored by Aloha Airlines that were assumed by PBGC in April 2006 following the carrier's emergence from an earlier bankruptcy. A fourth plan sponsored by Aloha for its dispatchers, covering about 50 participants, remained ongoing after the bankruptcy.

Pension Benefit Administration

PBGC was created by the Employee Retirement Income Security Act of 1974 ("ERISA") to guarantee pensions when an underfunded defined benefit plan is terminated. When PBGC assumes an underfunded plan, the Corporation pays benefits up to ERISA guarantee limits. For insured plans that terminated in 2005 such as Aloha's, the maximum guaranteed benefit is $45,613 per year ($3,801 monthly) for PBGC payments beginning at age 65. The maximum is actuarially adjusted for benefits beginning earlier or later, or if a benefit will be payable to a surviving beneficiary.

When PBGC becomes trustee of a plan, retirees initially receive the same monthly benefit amounts that the plan was paying. Once PBGC obtains plan data and makes a preliminary analysis, benefit payments are reduced if necessary to an estimate of the amount payable under federal law. We also inform participants that any overpayments will be subject to recoupment (the process by which participants return any overpayments).

In order to make final benefit determinations, PBGC applies various statutory provisions that include:

- calculating the benefit under the specific plan provisions;
- applying the statutory maximum guarantee;
- phasing in the guarantee of benefit increases within five years of plan termination; and
- allocating plan assets and recoveries from employers available to pay non-guaranteed benefits.

Because plan provisions and the statutory rules noted above are complex, it takes about three years to complete final benefit determinations. When this process is finished, PBGC sends a letter to each participant explaining the calculations and the changes, if any, in their estimated benefit amount. Participants have 45 days to appeal this final determination.

At every step in the process, the Corporation is available to answer participants' questions and to help them apply for benefits. For larger plans, PBGC holds participant meetings to provide both general and plan-specific information about the termination process. We also send an annual newsletter to participants receiving benefits and semiannual newsletters to those not yet retired. Participants can get additional information about PBGC and the pension insurance program at www.pbgc.gov or by calling PBGC's Customer Contact Center at 1-800-400-7242.

Airline Pensions

Airline plans have accounted for more than $14 billion in claims since 1974 – approximately 40 percent of all claims from failed companies. Since 2001, PBGC has assumed responsibility for the pension plans of TWA, US Airways, United Airlines, and the pilots of Delta Air Lines. In addition, as of the end of calendar year 2006, there was another $12.6 billion in unfunded pension liabilities in ongoing defined benefit plans in the airline industry.

Aloha Airlines

On December 30, 2004, Aloha Airlines filed for bankruptcy. PBGC tried to compel Aloha to keep its plans ongoing. However, as part of the bankruptcy settlement reached in February 2006, the Corporation was appointed trustee for the pensions of nearly 4,000 workers and retirees who were participants in three of Aloha's defined benefit plans: the Pension Plan for Non-Represented Employees, the Pension Plan for Employees Represented by the International Association of Machinists (IAM), and the Pilots' Fixed Retirement Plan. A fourth plan, the Pension Plan for Dispatchers, survived the bankruptcy.

The termination date for the three trusteed plans was December 14, 2005. PBGC's most recent estimate is that the three plans on an aggregate basis were 51 percent funded with $177 million in assets to cover $346 million in promised benefits. Of the $169 million in total underfunding, about $119 million was guaranteed. Plan participants thus will lose about $50 million in unfunded, non-guaranteed benefits that cannot be paid under federal law.

PBGC has sent estimated benefit statements to participants in the three trusteed plans. As specified below, more than 90 percent of participants in the Non-Represented Employees Plan and the IAM Employees Plan continue to receive their full benefit payment; the remaining participants in these two plans are now receiving reduced benefits as determined by statutory limits. In the Pilots' Fixed Retirement Plan, about 58 percent of participants are now receiving reduced benefits, primarily due to the previously-noted maximum guaranteed benefit under ERISA ($45,613 for plans that terminated in 2005). Participants in all three plans should expect to receive final benefit determination letters in 2009.

Non-Represented Employees Plan:

The plan for non-represented employees covers about 900 participants. The plan was 39 percent funded, with $21 million in assets to cover $54 million in liabilities. However, about 840 of those participants (93 percent) are receiving their full benefits and are not affected by ERISA guarantee limits. The remaining 60 participants (7 percent) have had their benefits reduced by an average of about $170 per month (a 21 percent reduction). These reductions were required because salary concessions reduced the wages on which benefits are based.

IAM Employees Plan:
The Aloha IAM plan covers about 2,600 participants. The plan was 58 percent funded, with $87 million in assets to cover $151 million in liabilities. However, like the non-represented employees, about 2,350 IAM participants (90 percent) are receiving their full plan benefits. The remaining 250 participants (10 percent) have had small reductions in their benefits averaging about $33 per month (a 3 percent reduction). These reductions were primarily the result of the phase-in limit on recent benefit increases under ERISA; generally, this five-year formula guarantees benefit increases at 20 percent for each year in effect.

Pilots' Fixed Retirement Plan:
The pilots' plan covers about 450 participants. The plan was 49 percent funded, with $69 million in assets to cover $141 million in liabilities. About 190 participants (42 percent) are receiving their full plan benefits. The remaining 260 participants (58 percent) have had their benefits reduced primarily due to the maximum guaranteed benefit under ERISA that imposes an annual dollar cap (again, $45,613 for 2005 plan terminations). The average benefit reduction for these participants is about $1,050 per month (a 42 percent reduction). However, based on the most recent information available, the assets in the plan will be sufficient so that those Aloha pilots who were retired (or were eligible to retire three years prior to plan termination) are expected to receive about 60 percent of their promised benefits.

Dispatchers' Plan:
As noted, Aloha currently sponsors one ongoing defined benefit plan for dispatchers covering about 50 participants, and which PBGC estimates as being underfunded by about $1 million. As Aloha's current bankruptcy plan develops, PBGC will take appropriate steps to ensure that none of the plan's participants is put at risk.

Health Care
An issue that often arises in conjunction with business failures is the loss of employer-provided health care coverage for workers and retirees. By law, PBGC guarantees do not cover health insurance. However, certain PBGC benefit recipients who are age 55 or older and are covered by qualified health insurance are eligible for the Health Coverage Tax Credit (HCTC). For more information, participants can call the HCTC Customer Contact Center at 1-866-628-HCTC (4282).

Conclusion
PBGC is committed to paying all workers and retirees the full benefit amounts they are entitled to under law, and we are making every effort to make the benefit determination process as efficient and customer-service oriented as possible. I want to assure you and the participants in all defined benefit plans insured by PBGC that the Corporation stands ready to carry out its mission to pay benefits to participants, as it is now doing for Aloha participants and as it has done since the enactment of ERISA. Thank you for the opportunity to appear here today, and I would be pleased to answer any questions you may have.