AMERICAN BENEFITS COUNCIL

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The Companies Themselves Speak: The Pandemic Has Led Directly to the Single-Employer Funding Crisis, Placing Jobs at Risk

The economic consequences of the COVID-19 pandemic have created overwhelming funding challenges across the country for companies that sponsor defined benefit plans.

The pandemic has exacerbated challenges that sponsors of defined benefit pension plans faced prior to the pandemic from continued historically low interest rates, which have inflated pension contributions to an extreme degree. Of course, the fact that interest rates have continued to fall during the crisis makes this situation even more serious.

But most significantly, many companies have experienced major disruption to their business operations, increased costs, and reduced company revenue*. This is a critical reason why companies need single employer pension funding stabilization enacted as part of the stimulus bill being considered by Congress: they simply cannot afford to make the enormous contributions required under current law.* ***And as described below in testimonials from companies, these business challenges are expected to last for years.***

- **Already forced to furlough over 1,000 employees, now facing funding obligations due to double:** "We have had a $100 million earned revenue loss in our FY20 fiscal year, and expect to have another $100 million+ revenue loss in our new fiscal year that just began. We are trying to make up for it by furloughing over a thousand people, emergency fundraising, and a temporary increase in our bank line of credit (we have secured it only through Dec. 2020). Our minimum cash pension contribution is more than doubling, from $10 million in calendar year 2020 to over $20 million in calendar year 2021 because of expiring pension relief."

- **Almost 60% drop in revenue:** "We saw in 2Q 2020, an almost 60% drop in revenue for our company, all of which was due to the impacts of COVID. 3Q 2020 doesn't look much better, even with the modest rebound in the economy. Which means that we, along with so many other companies, have to be very careful stewards of our resources and are unable to pursue many of the investment and development opportunities we would otherwise pursue. Add to this dismal state of affairs the increasingly declining interest rate environment we find ourselves in (which is in large part driven by the COVID crisis), and it is no wonder so many companies are in need of funding relief. In short, the need for funding relief *now* is very much driven by COVID."

- **Temporary shutdown, sales down more than 50%:** "We had to shutter our manufacturing and distribution operations for more than three weeks, essentially bringing our business to a screeching halt this spring. In the height of the pandemic and the stay-at-home orders, sales for our largest business were down more than 50% during one of our peak seasons."

- **Sales down 29%:** As an aerospace and defense company our business has been severely impacted by the pandemic. Last quarter's sales are down 29% from the prior year, and are not expected to return to pre-pandemic levels for at least three years. We have taken significant company-wide austerity measures to reduce costs and meet our obligations, including suspending our dividend, implementing furloughs, executive and director pay cuts and benefit cuts. We have had to refinance our debt at significantly higher rates and continue to borrow more to fund operations and try to preserve jobs until we return to profitability. In addition to commercial aerospace products, we also supply defense products, systems and services that are critical to U.S. national security.

  Due to lower asset valuations and lower discount rates at our April 1, 2020, valuation date, our unfunded pension liability has more than doubled since last year. Our minimum required pension funding forecast for the next four years increased by more than 50% over the prior year (an increase of over $90M). Pension funding relief, like Congress provided after the economic shocks in 2001 and 2008, is critical to help us preserve the value of the underlying business along with the jobs it supports, and to continue to be a viable supplier to our commercial and military customers.

- **Help being provided to over 7,500 suppliers at risk:** "We have redeployed the way we use our cash during the pandemic to assist our supply chain. Funding relief/amortization changes would allow us to use cash for business purposes rather than tying it up into the plan. From the beginning of the COVID-19 pandemic, we have been working closely with the U.S. Department of Defense (DOD) to identify ways to provide critical financial and operational support to the most vulnerable elements of the U.S. defense industrial base, including over 8,600 small business suppliers. To date, our accelerated payments have gone to 7,578 unique suppliers, 4,584 small business suppliers across 50 states, D.C., Puerto Rico and in 37 countries overall.

The COVID-19 pandemic has created health, economic, and national security challenges around the world. In this more volatile environment, it is more important than ever before to maintain the operations of the defense industrial base and support our men and women in uniform. For the past several months, we have worked with the DOD to strengthen our supply chain."

- **150,000 layoffs in airline industry projected for October:** "The COVID crisis created substantial cash flow issues for the commercial aviation industry as the Federal Reserve's interest rate cuts dramatically increased the projected pension contributions at a time when the aviation industry suffered an unprecedented decline in passenger demand and revenues. On April 14, 2020, government-mandated shutdowns and restrictions on international travel caused a 97% decline in U.S. travelers passing through TSA checkpoints when compared to the same day in 2019. While passenger traffic has somewhat recovered since, it remains at dismal levels. As of September 2, 2020, TSA data shows a 69.4% decline in passenger traffic when compared to the same day in 2019. The TSA passenger statistics confirm the International Air Transport Association's (IATA) prediction that 2020 will be "the worst year in the history of aviation." IATA expects airlines to lose over $80 billion in 2020 with revenues declining by 50% globally.

  The precipitous drop in demand caused the airline industry to take certain measures to preserve liquidity. While various actions have yielded short term success for current operations, the future of aviation demand is uncertain. It is estimated that the airline industry could see over 150,000 layoffs this October if no additional action is taken and travel demand remains low. Any chance of a quick recovery for aviation is unlikely as Moody's Investor Services predicts the industry will not fully recover from the effects of the pandemic until the end of 2023 (IATA does not expect a full recovery until 2024). It is also uncertain if business travel, one of the most profitable sectors for commercial aviation, will ever return to pre-pandemic levels given the significant increase of virtual work. Air carriers cannot afford to substantially increase, and essentially prefund, long-term pension obligations in the coming years. For the airline industry, it is essential that the HEROES Act pension funding relief legislation be enacted into law as soon as possible."

- **Demand fell by almost a quarter:** "The pandemic has had a substantial effect on [our industry], as the dramatic reduction in economic activity has been particularly hard for us. North American demand in key areas fell by 24% and 23%, respectively, in the first half of 2020 compared to the same period last year."

- **$600 million loss in one quarter:** "Our second quarter net loss of [over $600] million was directly attributable to a goodwill impairment driven by demand reduction from the pandemic. We are forecasting earnings to be more than 8% below plan for the year, due solely to fallout from the pandemic."

- **$120 to $140 million loss:** "Our company is projecting 2020 revenues to be $120 to $140 million lower as a result of COVID-19. Looking ahead to 2021 and 2022, we expect some of the economic effects of COVID-19 to linger, and sales are projected to be slightly below what were previously planned."

- **Revenue down 10%:** "Approximately half of Q1 revenue decline was due to COVID-19-related impacts. And Non-GAAP adjusted revenue likely down 10% for the full year."