

The Lost Retirement Savings Act

Update on HR 4061 and S 2505

On Wednesday, July 9, 2008 the House of Representatives voted to incorporate many of the provisions in HR4061 into legislation designed to correct technical flaws in the Pension Protection Act of 2006. The language pertaining to the rollover of airline bankruptcy claims is now included in Section 205 of the Technical Correction. Unfortunately one of the key provisions of the original legislative proposal was dropped in the measure passed in the House, the ability to rollover the bankruptcy proceeds into a traditional IRA. Instead, the legislation passed in the House allows a rollover into a Roth IRA, but the key difference is that contributions to a Roth IRA are not treated as reductions in taxable income.

The Senate Bill (S2505) still incorporates language that will allow rollovers into a traditional IRA. Now that the House has passed its version of this legislation, there is a good chance that the Senate will also take action on the Bill during this congressional session.

If the Senate passes a version that differs from the House version, then a conference committee must agree to changes in the Bills so that they are identical, before they are sent to the President for his signature.

All retired pilots are urged to write letters to your senators asking them to support S2505; including the ability of retirees whose pensions have been terminated during bankruptcy, to rollover the bankruptcy proceeds into a traditional IRA. (Sample letters below.)

S 2505 was sponsored by Senator Maria Cantwell (D-WA). The bill is currently in the Senate Finance Committee, chaired by Senator Max Baucus (D-MT). Other key senators from states with a major Delta presence are Jim Bunning from Kentucky, Orin Hatch from Utah, John Kerry from Massachusetts, Charles Schumer from New York and Debbie Stabenow from Michigan. For a full list of Senators on this committee go to: <http://www.govtrack.us/congress/committee.xpd?id=ssfi>

To track the Senate version of the pending legislation, S2505 go to: <http://www.govtrack.us/congress/bill.xpd?bill=s110-2505>

Sample Letters:

Dear Senator Cantwell,

I am a retired Delta pilot. I am writing to thank you for your support of S2505, the Lost Retirement Savings Act.

As you know, the Delta bankruptcy lump sum settlements for lost pensions are only a fraction of the present value of the monthly benefits they replaced, benefits which would have been paid as monthly annuities.

Receiving the settlements in lump sum form causes an immediate tax liability far greater than that which would have been due on the monthly stream of payments. This is a windfall to the government and a further hardship to airline employees who have suffered disproportionately in the aftermath of 9/11.

The legislation provides a fair and equitable means to spread those tax payments over our retirement years at tax rates which would have originally applied.

Again, I thank you for your tireless efforts to support the retirees and employees of Delta Air Lines.

**Captain Delta Pilot
Atlanta, GA**

Letter 2

Dear Senator _____:

I am a retired Delta Air Lines pilot writing to ask for your support and co-sponsorship of S 2505. (The Lost Retirement Savings Act.)

Like thousands of my fellow retired airline employees, my defined benefit pension plan was terminated during Delta's bankruptcy reorganization. Following the loss of our pensions the company awarded bankruptcy claims to retired pilots to partially compensate us for our lost lifetime pension benefits.

These one time payments were made in the form of a lump sum, rather than the lifetime annuities we had earned.

These lump sum payments place us in the highest tax bracket for the tax year received, rather than the lower tax obligations we would have paid on our lifetime annuities. This is a windfall for the government at the expense of the retirees who have already suffered by receiving only a small portion of their earned retirement benefits.

The passage of S2505 would allow retired airline employees the option to place their bankruptcy settlements into a tax deferred IRA and then receive the proceeds over a number of years and pay normal taxes on the money as it is received by the individual. S2505 represents a fair and equitable solution for the retirees and the US government.

**Sincerely,
Capt. Jet Jock**

The following language is incorporated into the pension legislation passed in the House of Representatives on July 9, 2008:

SEC. 205. ROLLOVER OF AMOUNTS RECEIVED IN AIRLINE CARRIER BANKRUPTCY TO ROTH IRAS.

(a) GENERAL RULE.—If a qualified airline employee receives any airline payment amount and transfers any portion of such amount to a Roth IRA within 180 days of receipt of such amount (or, if later, within 180 days of the date of the enactment of this Act), then such amount (to the extent so transferred) shall be treated as a qualified rollover contribution described in section 408A(e) of the Internal Revenue Code of 1986, and the limitations described in section 408A(c)(3) of such Code shall not apply to any such transfer.

(b) DEFINITIONS AND SPECIAL RULES.—For purposes of this section—

(1) AIRLINE PAYMENT AMOUNT.—

(A) IN GENERAL.—The term “airline payment amount” means any payment of any money or other property which is payable by a commercial passenger airline carrier to a qualified airline employee—

(i) under the approval of an order of a Federal bankruptcy court in a case filed after September 11, 2001, and before January 1, 2007, and

(ii) in respect of the qualified airline employee’s interest in a bankruptcy claim against the carrier, any note of the carrier (or amount paid in lieu of a note being issued), or any other fixed obligation of the carrier to pay a lump sum amount. The amount of such payment shall be determined without regard to any requirement to deduct and withhold tax from such payment under sections 3102(a) and 3402(a).

(B) EXCEPTION.—An airline payment amount shall not include any amount payable on the basis of the carrier’s future earnings or profits.

(2) QUALIFIED AIRLINE EMPLOYEE.—The term “qualified airline employee” means an employee or former employee of a commercial passenger airline carrier who was a participant in a defined benefit plan maintained by the carrier which—

(A) is a plan described in section 401(a) of the Internal Revenue Code of 1986 which includes a trust exempt from tax under section 501(a) of such Code, and

(B) was terminated or became subject to the restrictions contained in paragraphs (2) and (3) of section 402(b) of the Pension Protection Act of 2006.

(3) REPORTING REQUIREMENTS.—If a commercial passenger airline carrier pays 1 or more airline payment amounts, the carrier shall, within 90 days of such payment (or, if later, within 90 days of the date of the enactment of this Act), report—

(A) to the Secretary of the Treasury, the names of the qualified airline employees to whom such amounts were paid, and

(B) to the Secretary and to such employees, the years and the amounts of the payments.

Such reports shall be in such form, and contain such additional information, as the Secretary may prescribe.

(c) EFFECTIVE DATE.—This section shall apply to transfers made after the date of the enactment of this Act with respect to airline payment amounts paid before, on, or after such date.

