

Fatal Flaws Invalidate Conclusions of Jenkins Report on the Age 60 Rule

Rebuttal and Analytical Review

*A Cost Benefit Analysis of S.65 and Reforming the Age 60 Rule
on the Federal Government*

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Executive Summary

Currently, Federal Aviation Regulations (FARs) place an age limitation on commercial airline pilots of 60 years. Commonly referred to as the “Age 60 Rule,” this limitation requires commercial airline pilots to retire from their respective airline pilot jobs upon turning 60 years old. Recently, a document entitled *A Cost Benefit Analysis of S.65 and Reforming the Age 60 Rule on the Federal Government* by Darryl Jenkins dated July 24, 2006 was circulated among members of Congress and other interested parties. The Jenkins analysis reached the conclusion that an increase in the commercial pilot age limitation from 60 to 65 years would result in a net “benefit” to the United States federal government of \$10 billion or more over the next 15 years.

While the Allied Pilots Association (APA) strongly believes the Age 60 Rule is primarily a safety issue – and not one of economics – we feel compelled to respond to the Jenkins analysis because of its many errors. ***The proposed change to the Age 60 Rule will not achieve any economic benefit to the United States federal government.*** The Jenkins analysis is so materially flawed that it should have no place in the debate on the merits of the Age 60 Rule.

Jenkins makes fundamental mistakes in three primary areas: 1) Jenkins attempts to quantify lost wages due to early retirement from an individual pilot perspective, but then improperly extrapolates those findings as applicable to the federal government, 2) Jenkins misunderstands the structure and obligations of the Pension Benefit Guaranty Corporation, and 3) Jenkins does not understand the payment of retirement benefits from the Social Security system.

Specifically, the flaws in the Jenkins analysis of benefits (savings) to the government include the following:

- Jenkins assumes that the individual airline pilot job – and hence earnings and taxes paid on those earnings – vanish when the pilot retires. This is simply untrue. Planes do not fly without pilots in the cockpit. When one pilot retires, another pilot takes his/her place. The total number of airline pilot jobs, total wages and total taxes paid *to the government* are largely unaffected by the existence of a commercial pilot age limitation / retirement age.
- Jenkins assumes the Pension Benefit Guaranty Corporation (PBGC) is both insolvent *and* an obligation of the federal government. Neither assumption is true.
- Jenkins confuses the timing of retirement payments from Social Security with the amount a retiree will receive. Those who elect to begin receiving Social Security retirement benefits early (age 62 – not age 60 as Jenkins assumes) receive a *lesser* monthly amount. In other words, the amount (value) of the benefit paid to retirees by Social Security is not affected by when an individual retiree elects to begin receiving Social Security benefits.

When the Jenkins Analysis is corrected for these and other errors, there is no economic benefit to the United States federal government from a change to the Age 60 Rule.

Overview

The document entitled *A Cost Benefit Analysis of S.65 and Reforming the Age 60 Rule on the Federal Government* by Darryl Jenkins dated July 24, 2006 (hereafter the “Jenkins Analysis”) has been provided to the Allied Pilots Association (APA) after having been circulated among members of Congress and around the industry. The Jenkins Analysis was prepared at the request of JetBlue Airways, Southwest Airlines Pilots’ Association (SWAPA), and Airline Pilots Against Age Discrimination. Not surprisingly, each of these organizations is publicly supporting a change to the current mandatory pilot retirement age. A copy of the Jenkins Analysis is attached (see **Exhibit A**).

The Jenkins Analysis attempts to establish the net present value of the cost or benefit, *as it pertains solely to the United States federal government*, of changing the current age limitation from 60 to 65 years for airline pilots of certificated air carriers operating under Federal Aviation Regulations (FAR) Part 121. The Jenkins Analysis concludes that raising the pilot age limit from 60 to 65 years, conservatively, will save the United States federal government “roughly \$10 billion” over the study period (2007 – 2021).

While the Allied Pilots Association strongly believes the Age 60 Rule is primarily a safety issue – and not one of economics – we feel compelled to respond to the Jenkins Analysis because of its many errors. ***Any proposed change to the Age 60 Rule will not achieve any measurable economic benefit to the United States federal government.*** The Jenkins Analysis is so materially flawed that it should have no place in the debate on the merits of the Age 60 Rule.

The Jenkins Analysis Refuted

The Jenkins Analysis attempts to establish both “Direct Benefits” and “Indirect Benefits” (direct and indirect net savings) to the federal government resulting from a five-year increase in the commercial pilot age limitation. Several significant errors and incorrect assumptions completely invalidate the Jenkins Analysis of both the direct and indirect savings and the resulting conclusion. These errors and a detailed rebuttal follow.

FLAWS RELATED TO THE “DIRECT BENEFIT” SAVINGS ANALYSIS:

Jenkins Analysis: The largest portion of the “Direct Benefits” stated to accrue to the United States federal government (hereafter “the government”) is from incremental savings to the PBGC.

APA: *The PBGC is a federal corporation that finances its operations independent of the government. The government is not obligated for any shortfall the PBGC might someday experience; thus, there are no “savings” to be obtained for the government.¹ Jenkins also*

1. The assumption that: 1) the PBGC will become insolvent, and 2) the government (taxpayers) will *at some point* assume the PBGC trustee obligations, is debatable. However, within the Jenkins Analysis study period, this scenario is unlikely.

incorrectly assumes all retiring pilots participate in a pension plan insured by the PBGC – a substantial number do not. In fact, two of the sponsors of the Jenkins Analysis, SWAPA and JetBlue, have no defined benefit pension covered by the PBGC. Thus, there could be no savings for these pilots even if the PBGC obligations fell to the federal government.

Jenkins Analysis: The remaining portion of the “Direct Benefits” expected to accrue to the government is from incremental savings to Social Security.

APA: *First, the retiring pilots’ jobs are not eliminated due to retirement of a particular group of senior pilots. Other pilots “move up” to fill the vacated jobs, and these pilots typically make more than the FICA Maximum Taxable Amount. The upward movement all down the chain of pilot jobs effectively preserves the gross wages subject to FICA taxes.*

Second, the per-pilot amount shown in the Jenkins Analysis is invalid. Social Security benefits cannot begin until age 62 at the earliest. If benefit payments are elected at age 62, they are at a reduced rate in order to meet the actuarial equivalent of beginning benefit payments at age 65 (or the Full Retirement Age – increases to age 67 over the study period). Thus, while the timing of Social Security benefit payments may be variable, there are ultimately no savings to the government as a result of when a person begins receiving retirement benefits.

Jenkins Analysis: The “Total Individual Benefit” (Direct Benefit “savings” per pilot) is multiplied by the total number of pilots retiring over the next five years, which then becomes the “Direct Benefits” annual savings amount, beginning immediately.

APA: *Even if there were any “Direct Benefits” – which there are not – present value theory is based upon current, or near-term, cash flows being worth more than later-term cash flows. (A dollar received today is worth more than one received tomorrow.) Assuming all the cash flow from “savings” occurs immediately, rather than layering the anticipated “savings” as they are expected to occur (one fifth of the retirees each year), skews the present value calculation materially too high.*

Although there are no “Indirect Benefits” either, Jenkins makes the same error in calculating the “Indirect Benefit” annual savings amount.

FLAWS RELATED TO THE “INDIRECT BENEFITS” SAVINGS ANALYSIS:

Jenkins Analysis: The “Indirect Benefit” begins with the assumptions that when a pilot retires, the pilot’s job, the associated earnings and the taxes paid on those earnings vanish into thin air.

APA: *The total number of airline pilot jobs is not driven by any commercial pilot age limitation. Planes do not operate without pilots in the cockpit. When a pilot “retires,” another pilot moves up to fill the vacancy at approximately the same rate of pay, and that replacement pilot will continue to pay taxes on that earned income. The loss of wages and taxes paid due to the Age 60 Rule may affect a unique, individual pilot, but not the entire airline industry and not the U.S. work force from which the government collects payroll taxes. Jenkins makes the classic*

analytical mistake of forgetting the premise of his original thesis – determining the cost or benefit of the proposed change as it pertains solely to the United States federal government rather than an individual pilot or particular group of pilots.

Jenkins Analysis: Jenkins infers that every pilot who retires from their airline job at age 60 never earns another taxable dollar.

APA: *The Jenkins Analysis contains no provision for income earned “post-retirement” by commercial airline pilots. Many pilots can and do work for a number of years after retiring from commercial airline pilot jobs. For every year after age 60 (the current age limit) that any “retired” pilot earns taxable wages in some other occupation, those taxes would become a net benefit to the U.S. government. We do not have sufficient data at this time to estimate the size of this net benefit, but it cannot be ignored.*

Jenkins Analysis: The “annual indirect savings” calculation overstates the employee’s and employer’s contribution to Social Security (FICA).

If there were an actual job, wage and tax loss due to the pilot age limitation – which there is not – Jenkins’ calculation uses 8.0% when the combined FICA and Medicare tax level is 7.65%. In addition, the Jenkins Analysis does not take into account the FICA Maximum Taxable Amount, and simply multiplies the entire assumed annual income (\$140,000) by the 8.0% rate (the current FICA Maximum Taxable Amount is \$94,200). Combined, this has the effect of overstating the FICA portion of the per-pilot indirect “savings” calculation by more than 40% within the Jenkins Analysis.

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Analysis Review, Adjustment & Recalculation

To ease the comparison and understanding of where adjustments are required, this review will follow the same format utilized by the Jenkins Analysis. If desired, the reader is invited to compare the tables of Exhibit 1 (the Jenkins Analysis) side-by-side with these corrections.

The Jenkins Analysis begins by presenting the total direct savings (Direct Benefits) on an annual basis in Table One. The necessary adjustments are shown as well.

Table One - Direct Annual Savings APA Adjustments are in Red	Annual Amount in \$	
	Jenkins Analysis	APA Adjustment
PBGC	29,649	0¹
Social Security	19,644	0²
Total Individual Benefit	49,293	0
Multiplied by "Retiring" Pilots³	8,808	8,808
Total "Direct" annual savings	\$ 434,172,744	\$ 0

1. There are no savings to the government related to the PBGC – see Overview.

2. Full Social Security benefits cannot begin until age 65 or later. Benefit payments beginning before the full retirement age are at a lower amount to achieve actuarial equivalency; therefore, there are no net savings to the government - see Overview.

3. A substantial number of the “retiring” pilots have no pension insured by the PBGC. Not adjusted due to the PBGC and Social Security basis being \$0. Plus, if benefits existed, the number of pilots should be accounted for as they are expected to retire rather than all at once.

As a result, there are no “Direct Benefits” to the United States federal government related to raising the age limit of FAR Part 121 air carrier pilots from age 60 to 65.

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The Jenkins Analysis presents the total annual indirect savings (Indirect Benefits) in Table Two. Inherent in this calculation are the invalid assumptions that 1) the airline pilot job disappears with a retiring pilot, and 2) each and every pilot “retiring” at age 60 never earns any additional taxable wage income.

Table Two - Indirect Annual Savings APA Adjustments are in Red		Annual Amount in \$	
		Jenkins Analysis	APA Adjustment
Annual Income Lost¹		140,000	0
Loss of Income Tax¹		35,000	0
Loss of FICA & Medicare²			
Employee's contribution	8.00%	11,200	0
Employer's contribution	8.00%	11,200	0
Total individual income lost to the government		57,400	0
Multiplied by "Retiring" Pilots³		8,808	8,808
Total "Indirect" annual savings³		\$ 505,579,200	\$ 0

1. Jenkins assumes that the job vanishes with the retiring pilot, which generates the lost income tax assumption of \$35,000. This is an invalid assumption as it pertains to the government.
2. If there were any Indirect Benefit, given this set of assumptions, the correct FICA and Medicare rates must be used, and the FICA maximum taxable amount must be considered. Medicare taxes are levied on total annual wage income.
3. The Jenkins Analysis simply uses the gross number of “retiring” pilots beginning in year one. If any Indirect Benefits existed, the retiring pilots should be accounted for as they are expected to retire.

As a result, there are no “Indirect Benefits” to the United States Federal Government related to raising the age limit of FAR Part 121 air carrier pilots from age 60 to 65.

Table Three of the Jenkins Analysis simply adds the Direct Benefits and the Indirect Benefits to establish a Total (annual) “benefit.” The adjusted Table Three is presented below:

Table Three - annual savings Adjustments are in Red		Annual Amount in \$	
		Jenkins Analysis	APA Adjustment
Direct Benefits	\$	434,172,744	\$ 0
Indirect Benefits	\$	505,579,200	\$ 0
Total (all years)	\$	939,751,944	\$ 0

The Jenkins Analysis culminates in Table Four, which presents the annual amounts for the study period that are then discounted at the “30-year treasury rate” (rate not specified – calculates to be 4.50% - effective rate quoted as of Aug. 15, 2006) to achieve a present value “benefit.” Since there are no benefits, there is no cash flow stream of savings to value. Thus, the adjusted present value is \$0.

Table Four - Present Value		Annual Amount in \$	
Adjusted values in Red	Jenkins Analysis	APA Adjustment	
Year			
2007	939,751,944	\$	0
2008	939,751,944	\$	0
2009	939,751,944	\$	0
2010	939,751,944	\$	0
2011	939,751,944	\$	0
2012	939,751,944	\$	0
2013	939,751,944	\$	0
2014	939,751,944	\$	0
2015	939,751,944	\$	0
2016	939,751,944	\$	0
2017	939,751,944	\$	0
2018	939,751,944	\$	0
2019	939,751,944	\$	0
2020	939,751,944	\$	0
2021	939,751,944	\$	0
Present Value	\$ 10,092,508,974	\$	0

The potential savings to the government calculated by the Jenkins Analysis are vastly overstated. There is no measurable benefit to the government.

CONCLUSION

When the Jenkins Analysis is corrected for its many errors, we find no measurable economic benefit to the United States federal government from an increase in the current commercial pilot age limitation. As such, the Jenkins Analysis is so materially flawed that it should have no place in the current debate on the merits of the Age 60 Rule.