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Via Email and U.S. Mail

Mike Moore
Pacific Merchant Shipping Association
World Trade Center
2200 Alaskan Way, Suite 160
Seattle, WA 98121

Re: PSP Pension Stakeholder Negotiations

Dear Mike:

In response to your email of yesterday, let me first address the inaccuracy in your suggested takeaways from my June 6 email and then provide PSP's position on the state of negotiations with PMSA.

Corrected Takeaways.

As to the PMSA request for three categories of information, which you communicated via email on June 6 and to which we responded on June 7, you are correct that the PSP actuary is willing to respond to written requests for information from PMSA's actuary or to participate in a conference call on which PSP is also represented by counsel and a member of its Pension Committee. Regarding the second request for contact with the PSP plan administrator, there is no PSP staffer with that title. The terms of the PSP pension plan are extremely straightforward. When pilots retire, which happens zero to three times per year, the retiring pilot's benefit is calculated, reviewed by the president and then paid monthly by PSP's accounts payable staffer. If PMSA's actuary has specific questions, please send them to Ivan, Charlie and me and we will answer promptly. As to the request for any legal opinion on section 401(a) qualification of a Multiple Employer Defined Benefit Pension Plan, we have already advised you in our first stakeholder session on March 2 that PSP's pension attorney has concluded that this approach will meet the requirements of section 401(a), but there has been no formal legal opinion. PMSA can verify this through its own capable counsel.

Status of Negotiations with PMSA.

The most telling sentence in your email of yesterday regarding the state of stakeholder discussions between PSP and the PMSA is the following: "We obviously don't have any positions (final or preliminary) on any issues with specificity yet." The reality is that, from the beginning, PMSA has deployed a strategy of delay and has refused to negotiate in good faith.

This process began nearly five months ago when PSP forwarded a letter on January 28 enclosing the census data for PSP retirees and working pilots, the PSP pension plan and a summary of our actuary's 50-year cost projections for continuing the pay-as-you-go pension plan and two different scenarios involving a transition to a fully funded defined benefit plan. A week later, all parties received copies of the 50-year cost projections and a detailed description of the underlying actuarial assumptions. The letter also proposed a March 2 date with a well-regarded Seattle mediator to facilitate discussions at the initial stakeholder session on March 2. PMSA objected to using what it characterized as PSP's "hand-picked" mediator and the parties ultimately agreed to dispense with use of a mediator and to negotiate directly.

We have now had three stakeholder sessions, which occurred on March 2, April 13 and 26. An additional session was set for May 11 with the back-up date of May 17, but the session was canceled by PMSA because it needed more time to line up an actuary. To date, PMSA has been unwilling to acknowledge that PSP is legally bound to respect and honor its pension obligations to existing retirees and to 52 currently working pilots. While PMSA has repeatedly suggested in the stakeholder sessions that a host of other pension plan options – 401(k) plans, SEP plans, IRAs and individualized defined benefit plans – should be considered, PSP has made clear that none of these are in the cards. Not only is PSP legally bound to meet its pension obligations, but Washington's pilotage system regulators, the BPC and UTC to date, expect them to be met and have funded those obligations in the tariff as a fully appropriate and reasonable cost of the pilotage system for decades.

When the UTC issued its Final Order and approved a new tariff in late January 2021, PSP devoted a number of months to studying whether it was feasible to transition the existing PSP pay-as-you-go pension plan to a fully funded, ERISA-qualified defined benefit plan and, if so, how the costs compared to continuing the status quo. That work was completed in late 2021 and led to the PSP Pension Committee and Board Of Directors deciding to support the transition to the fully funded pension plan recommended so strongly by the UTC in its Final Order. In PSP's mind, there is no question that this transition, while more expensive in terms of tariff costs over the first 15 years (the required period for moving from a 100% deficit plan to full funding), will ultimately deliver significant savings to the pilotage system and stabilize the annual cost of funding PSP's pension plan.

To date, PMSA has been unwilling to make any proposal despite deep pre-existing knowledge of pilot group pensions both in Puget Sound and in San Francisco. However, PMSA has made clear on multiple occasions that, as a matter of principle, the ships paying pilotage fees today should not be paying for the costs of past pilotage service, which is how you characterize the costs of the PSP pension plan which collects the funds to pay retired pilots after each has retired. If the stakeholder process to date had involved a mediator, we are confident that an impasse would have been declared by now. PSP, as has been repeatedly explained, has virtually no negotiating space on the pension issue. The existing PSP plan must either be continued as a pay-as-you-go plan or replicated as a fully funded defined benefit plan. There are no other legally available options for PSP. As to changing the level of benefits at some future date for all newly licensed PSP pilots, PSP is absolutely opposed to reducing a pension that is in the middle rank of those in place at other major state-licensed US pilot groups for one simple reason. A substantial downgrade of PSP pension benefits would quickly become known among the relatively small group of master mariners in the US who consider making a mid-career move to the pilotage profession and would, without question, reduce the number of the best qualified mariners in what is a national candidate pool who consider applying to become a trainee pilot on the Puget Sound pilotage ground. PSP is obligated to maintain a pilotage system that provides the best available protection against oil spills and other maritime casualties in Puget Sound. As an organization, it must maintain a nationally competitive package of compensation and benefits both to attract the best available captains in the US and to diversify its pilot corps.

As you know, the Puget Sound pilotage tariff fell significantly short of meeting the assumed revenue requirement in 2020 and 2021 and will again in 2022. PSP is also significantly understaffed, which in this year of rebounding traffic levels, is causing excessive levels of callbacks, which are unsafe from a fatigue risk management perspective. Given the obvious impasse with PMSA on pension-related issues, PSP must concentrate on the preparations for its next general rate case. In our view, PSP has made a good faith effort to engage with stakeholders on the pension issues as requested by the UTC. PMSA has not. While we remain willing to provide information at your request consistent with the protocols listed in the first paragraph of this letter and to engage in meaningful negotiations provided any such session is preceded by an actual proposal from PMSA, we see no need to schedule a further session with PMSA in light of the clear impasse between the parties. Further, we believe it would be a waste of time to attempt to draft some sort of joint stakeholder report to the UTC regarding our negotiations. Between letters and emails, the record is quite clear and each party is free to submit a report to the UTC as it sees fit.

Very truly yours,

Michael E. Haglund

MEH:km

cc: *Via email:*
Mike Jacob
Jordan Royer
Monique Webber
Jay Jennings

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HAGLUND KELLEY LLP