Retirement Income
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Lufthansa permanently grounds its DB plan

By Editor Test *Thu, Sep 12, 2013*

CEO Peter Gerber said the airline's pension costs for domestic employees alone rose from €210m to €250m since 2011. One of the main cost drivers was the contract's guaranteed minimum interest rate of 6-7% for employees.

German airline Lufthansa has announced plans to terminate its existing bargaining agreement with employees – including its defined benefit (DB) pension fund – by the end of this year.

In Frankfurt, chief executive Peter Gerber said the costs for retirement provision for its domestic employees alone had increased from €210m to €250m since 2011.

One of the main cost drivers was the guaranteed minimum interest rate of 6-7% for employees set down in the current contract.

Lufthansa said it would replace the agreement with a defined contribution scheme linking returns more closely with capital markets. In total, DB obligations at the Lufthansa Group amount to €11bn.

The company said another €2.4bn would be set aside for pilots retiring early.

According to a survey by Morgan Stanley, Lufthansa is straddled with one of the largest net pension liabilities as a percentage of market capitalisation in Europe.

The airline offloaded its loss-making subsidiary bmi in 2011 but had to pay £84m (£103m) into the bmi pension fund to provide additional benefits to employees and allow the scheme to enter the UK’s Pension Protection Fund.

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