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PBGC to Assume United's Pensions

The agency will take over the plan of more than 36,000 active and retired ground workers. Unions threaten strike and court action.

March 12, 2005 | Debora Vrana | Times Staff Writer

The federal agency that insures corporate pension plans said Friday that it would take over the underfunded pensions of more than 36,000 current and retired ground workers at United Airlines, prompting a strike threat from the union that represents many of the affected workers.

The Pension Benefit Guaranty Corp. said the ground workers' pension plan was only 30% funded, with just \$1.2 billion in assets to cover \$4.1 billion in promised benefits. In addition, the PBGC said United parent UAL Corp., which filed for Chapter 11 bankruptcy protection two years ago, had missed \$363 million in payments to the plan.

"This action was necessary at this time to protect the pension insurance fund against further losses," said Bradley Belt, executive director of the PBGC, who added that retirees would continue to receive monthly checks without interruption.

But the action could mean a reduction in benefits for the retired ground workers because the PBGC insures pension plans only up to set limits.

"People are not going to make as much as they thought when they retire," said Jim Telfer, a partner at law firm Orrick, Herrington & Sutcliffe in San Francisco. "It's a sad situation."

The International Assn. of Machinists and Aerospace Workers, which represents about 17,000 of the 36,000 workers covered by the pension plan -- mostly baggage handlers, ramp workers and other ground employees -- reacted angrily to the government's action. Union leaders said they planned to meet Monday with United and the PBGC and threatened to strike if a compromise isn't reached.

"Instead of terminating pensions, maybe we should explore terminating the employment of United's top management who have mired the company in bankruptcy for more than two years," said Robert Roach Jr., the union's vice president of transportation.

The union said "tens of thousands of active and retired IAM members will lose benefits promised by United Airlines."

Most of the remaining workers covered by the plan are mechanics represented by the Aircraft Mechanics Fraternal Assn., which vowed to fight PBGC's actions in court to keep their plan from being seized.

"We are not going to take this standing still," said O.V. Delle-Femine, director for the mechanics group, which voted in January to strike if United succeeded in winning court-imposed wage and benefit concessions.

United spokeswoman Jean Medina said the airline believed that any strike action by the ground workers would be illegal under U.S. bankruptcy laws.

"We are studying the PBGC's actions and are evaluating options," Medina said. "We continue to believe that termination and replacement of all our defined-benefit pension plans is necessary."

Based in suburban Chicago, UAL has repeatedly said it wants to terminate all four of its pension plans -- which cover about 123,000 active and retired workers -- before it exits bankruptcy in an attempt to reduce labor and benefits costs and emerge as a viable carrier. The UAL plan requires court approval.

United wants to replace its defined-benefit plans -- which guarantee a monthly check for retirees -- with defined-contribution plans, which are funded largely by workers and don't guarantee benefits.

The airline has been unable to reach a pact with its unions on the switch, and the longer the PBGC waited to take over the ground workers' pension, the greater the liability it would have faced. PBGC officials said seizing the plan now would save the agency at least \$225 million.

United, the nation's second-largest airline, is the largest carrier at the Los Angeles and San Francisco airports. The airline's 62,000 employees include about 4,000 in the Los Angeles area.

Late last year, the PBGC asked the Bankruptcy Court for permission to take over the pilot pension plan, which as of last year had assets of \$2.8 billion to cover \$5.7 billion in liabilities.

But the Air Line Pilots Assn., which represents 6,400 active United pilots, is trying to negotiate an alternative to a PBGC takeover.

Meanwhile, the PBGC is trying to stem its growing deficit, caused in large part by taking over the pension obligations of troubled airlines and steel companies. The agency's deficit currently stands at \$23 billion.