

Delta asks to cut pilot pensions

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Delta Air Lines says it plans to seek bankruptcy court approval to scrap its traditional pension plan for pilots, a change that would cap a dramatic overhaul of pilot compensation at the carrier.

In a widely expected move, Delta said Friday it will tell the Pension Benefit Guaranty Corp. on Monday that it plans to terminate the pilot pension plan, shifting responsibility for further benefit payouts to the quasi-federal agency.

Delta's bankruptcy judge would have to approve the idea, and the pension agency or other parties could object in court.

But Delta's pilots union has already agreed not to oppose the change as part of a new concessionary contract ratified last month.

Delta says it is still considering whether to also seek termination of a larger plan covering ground employees and flight attendants.

Ailing companies such as Delta with underfunded pension plans can use termination to avoid the huge cash outlays needed to fully fund the plans, which are then closed down. Companies then usually switch to cheaper, 401(k)-style plans going forward — a change Delta has already put in place for pilots.

Delta's traditional pilot plan, which was underfunded by \$1.8 billion as of a year ago, covers about 13,000 current or retired pilots or dependents.

Terminating the plan "remains a very difficult and regrettable course of action," said Delta spokesman Anthony Black. "It ... would not be taken if the survival of the company wasn't at stake."

In Delta's \$280 million-a-year concession deal with the Air Line Pilots Association, reached in April, the union agreed not to oppose the airline's efforts to terminate the plan. In exchange, Delta agreed to give pilots a \$650 million IOU after the airline emerges from bankruptcy as partial compensation for pilots' loss of benefits.

The new contract also extended a 14 percent pay cut, which on top of a bigger cut in 2004 has almost halved some pilot wage rates over the past 20 months.

While wages are clear-cut, the economic effect of a pension termination on pilots is harder to assess because the system is complex and varies by individual circumstance.

The pension agency guarantees benefit payouts after a plan is terminated, but only up to caps that fall far short of typical pilot benefits. The cap is about \$47,000 a year for full retirees but substantially less for early retirees. Pilots must retire at 60.

However, in recent years Delta pilots have been able to take half their accrued benefits in a lump sum, reducing their dependence on monthly payments. Lump sums in many cases were about \$1 million.

Retired pilots have already taken a hit as Delta restructures. Shortly after Delta filed for bankruptcy in late 2005 it stopped sending monthly pension checks for a portion of pilot retiree pay that was outside the traditional pension plan.

George Leatherbury, a 61-year-old retired Delta pilot, said his annual pension dropped from nearly \$80,000 to about \$25,000. He thinks it will drop to about \$15,000 if the pension agency takes over the pilots' plan.

"I'm just so disappointed. Delta was the finest in the nation 15 years ago," he said.

But the former Boeing 767 captain, who lives in the Atlanta area, said he'll weather the change better than most; he retired with a lump sum and savings totaling about \$2 million.

"The guys that are still working are getting the brunt of it," he said.

Delta's action does not affect its other pension plan for about 91,000 current and retired ground workers, flight attendants and other nonpilot employees. However, last week Delta warned that it is running out of time to get legislative relief from Congress before it may decide to terminate that plan, too.

Delta and other carriers want legislation giving them as much as 20 years to fully fund their pension plans. Delta says it would have a better chance of saving the nonpilot plan with such an extension, but that there are no guarantees.

Executives say the structure of the pilot plan made it impossible to retain amid the company's financial woes.

"The unfortunate reality is that we will not be able to successfully restructure and exit bankruptcy without terminating the [pilot] plan, regardless of the

outcome of pending legislation in the U.S. Congress," Gary Beck, Delta's senior vice president of flight operations, told pilots in a memo.

Other airlines including United and US Airways have terminated pension plans while in Chapter 11 restructuring as a way to prevent the cash outlays needed to fully fund their plans.

The pension agency last year estimated that all of Delta's pension plans were underfunded by \$10.6 billion, but that liability is likely smaller now.