

Delta likely to kill pilot pension plan

During pilot pay cut dispute hearing bankrupt airline says pension plan may be scrapped.

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WASHINGTON (Reuters) – Bankrupt Delta Air Lines Inc. said Monday that it was in a "race against time" to restructure and that it was probable the company would terminate its pilots' pension plan to save money.

"It looks more likely than not," a lawyer for the airline, Jack Gallagher, said about pension prospects at an arbitration hearing on the fate of the pilots contract.

United Airlines and US Airways terminated their pension plans in bankruptcy. Northwest Airlines could also do the same in its restructuring. Pilots are the only major union at Delta, which sought bankruptcy protection last September, the same time as Northwest.

Some Wall Street analysts expect Delta and Northwest to dump some or all of their traditional pensions to lower costs and attract financing because bankruptcy law allows it and rivals have done it.

Although there is no disclosed timetable for dropping the pilots' plan, it is clear that the airline believes it cannot be saved even if Congress approves pension reform legislation that includes special help for struggling airlines.

Last week, House-Senate negotiators began work to hammer out a compromise pension bill by early April, but the fate of a provision to allow airlines to stretch pension contributions over a much longer period of time than currently allowed has not been finalized.

The Bush administration opposes the provision.

Delta also manages a nonunion plan, which officials said could be saved if the pension bill with industry help is approved.

An official of the pilots union, the Air Line Pilots Association, acknowledged the company had previously said privately that the underfunded pilots' plan was likely to go.

The company has halted payments, in most cases, to the pilots' plan and said it has spent \$2.6 billion since 2001 in lump sum payments to pilots who took early retirement. Delta faces up to \$1 billion in pension costs if pilots are allowed to take lump sum payouts this year, the company said.

The hearing was the result of an unusual agreement between the company and the pilots to have a three-member arbitration panel in Washington -- not the bankruptcy court in New York -- determine whether the carrier is in enough financial distress to void the union's contract.

The 6,000 pilots have threatened to strike if their collective bargaining agreement is thrown out. The deal was one of the richest in the industry when it was struck in early 2001.

Delta says it needs more than \$300 million in annual cost savings from the pilots, but negotiations have not produced a giveback agreement. Gallagher said the two sides are about \$190 million apart on savings needed annually over a four-year period.

The pilots' savings are part of \$3 billion in cost cuts and revenue increases Delta says it must reach to survive.

"Delta's long-term viability is very uncertain," Gallagher said. "It only has a short time to restructure."

Gerald Grinstein, Delta's chief executive, said in an interview at the hearing the airline is meeting its savings targets in every area but pilot costs, and needs a long-term savings plan in place very soon.

The arbitration panel will hear testimony over the next two weeks and is expected to make a decision by mid April.

"It's a race against time," Grinstein said. "We're working with borrowed money and there are time limits."