United Airlines announces deferment on pension payments

Major airlines continue assault on US workers

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United Airlines parent UAL Corp. stated last week that it is deferring a $72.4 million payment to its pension fund for retired workers. The announcement is a further indication that the major US airlines are determined to force their workers to pay for the increasingly beleaguered financial position of the industry.

UAL—the world's second largest airline—is currently under Chapter 11 bankruptcy protection and is searching for new sources of funding from banks and private equity firms. To attract new capital, UAL has begun sharp attacks on worker pay and imposed increases in hours worked and other cost-cutting measures. A prime target for the company is its large defined-benefit pension plan, which, if unaltered, is projected to require an influx of over $4 billion by 2008.

Toward the end of June, UAL was denied a federal loan guarantee from the Air Transportation Stabilization Board for the third time. The decision by the ATSB was a signal from the Bush administration and Wall Street that the major airlines—including UAL, US Airways, American Airlines and Delta—would have to escalate efforts to eliminate gains won by workers in the industry over the past 50 years. All the major airlines are facing financial problems and negative earnings in the face of competition from low-fare companies such as Southwest and JetBlue.

Wall Street is making a major push to force the large providers to be more "efficient"—that is, primarily to lower wages and lay off workers. The ATSB justified its decision to deny UAL's loan guarantee request by saying that the company could secure funding from the private credit sector. The private sector, on the other hand, is refusing to finance the company until it significantly cuts costs.

United is expected to further slash a workforce that has already dwindled to 62,500 from 100,000 in 2001, as less profitable routes are eliminated. The company has already forced its pilots and other workers to accept wage reductions and increased work hours that amount to $2.5 billion in annual savings for the company.

The developments at United will have a profound effect throughout the industry and beyond. These implications were made clear by *New York Times* writer Micheline Maynard in a June 30 article, "For Airlines, a Long Argumentative Summer". After pointing out that the bankruptcy negotiations at United may propel other airlines to force through cost-cutting measures independently, the author noted, "The danger for the airlines is that deals made in haste may lock in labor costs that prove to be higher than what a desperate United can ultimately get from its workers, leaving rivals either having to swallow a competitive disadvantage or to go back to the bargaining table yet again, asking for amendments."

The issue is clear: the labor negotiations by United Airlines to cut wages and attack pensions will serve as a benchmark to force workers throughout the industry to accept the same cuts. The article quotes Philip Baggaley, an airline analyst at Standard & Poor's, noting the financial troubles of United: "On the one hand, it's good news, because it helps other airlines that are seeking concessions. On the other hand, if United pulls this off, it will be a tougher competitor."

US Airways is currently threatening to return to bankruptcy status if it does not receive adequate concessions from its workers. In late June, the pilots union at US Airways accepted a 12.5 percent pay cut and extended hours. The flight attendants union at the company has also accepted major cuts. Delta Airlines is currently in negotiations with its pilots union and lenders to secure further wage cuts amounting to $800 million a year—a 35 percent pay cut. The negotiations consist of debate not over the necessity of cutbacks, but the extent of those cutbacks. The union has already agreed to concessions of over $300 million a year. American Airlines has also secured major concessions in recent months.

These moves are only the beginning. In June, the credit rating agency Moody's downgraded Delta's debt rating, citing "the company's prospects for continued operating losses and negative cash flow unless it is able to achieve significant near term reduction in its contract labor costs as well as reductions in other operating costs." Like US Air, Delta is using the threat of bankruptcy to demand further cuts in wages from its workers.

Faced by an industry-wide offensive against the airlines workers, the unions have worked to systematically isolate any negotiations. They have overseen concession after concession at individual companies, which are then used as benchmarks for similar or deeper cuts elsewhere.

The race to cut costs at the airlines will have a devastating effect not only on the airline workers, but also on the safety of air travel. What is being demanded is a wholesale subordination of air transportation to profit considerations. This will mean inevitable reductions in maintenance outlays and other safety procedures. Some of the major companies have already announced plans to replace some work now performed by relatively higher-paid union mechanics with low-wage unskilled labor.

The "rationalization" of the airline industry is the continuation of a process that began with the deregulation of the industry in the 1980s and the firing of thousands of air traffic controllers in the PATCO union by the Reagan administration.

The firing of the PATCO workers was a signal to workers that all the gains won in previous decades would be scaled back. It also marked the beginning of a period of wide-scale deregulation of air transportation and other industries. Sections of the economy—such as transportation, energy and communication—had previously been partially guarded from the effects of the drive for profit. They were seen as too critical to the normal functioning of public and economic life to be entirely subordinated to the drive for personal enrichment. Since the 1980s, these regulations have been systematically eliminated, with devastating consequences. What is now taking place is a continuation of Wall Street's demands for a restructuring of the airline industry to improve profitability.

One of the major demands is the elimination or transformation of the large defined-benefit pension plans, which are among the most important gains fought for by workers in many large corporations. By the terms of defined-benefit plans, retired workers receive a check from their former employer for a guaranteed and set amount. In recent years there has been a pronounced shift away from these costly plans to defined-contribution plans—such as 401(k) plans—in which employers give a set amount on a regular basis to a personally managed pension fund. If the investments in the fund should drop in value—for example, if there is a sudden drop in the stock market as has happened over the past several years—the burden falls on the worker rather than the employer.

Some 44 million American workers are covered by defined-benefit plans, valued at over $1 trillion. Companies such as UAL, AT&T and General Motors are trying desperately to find ways to get out of their obligations. In particular, the airlines have sought to transfer much of their pension obligations to the government, which provides a far lower stipend to workers than current plans prescribe.

An article in the April 14, 2003 issue of *BusinessWeek* entitled "How to Fix the Airlines" noted, "To truly compete ... the airlines have to go beyond wages, to address steep legacy costs [including pension costs] and antiquated work rules." US Airways paved the way when it "shucked its underfunded pilot pension plan, transferring the obligation to the government's Pension Benefit Guaranty Corp., with the grudging consent of the Air Line Pilots Assn. The move reduces US Airway's pension costs by roughly $700 million over the next six years. Without question, that will pinch: Under the previous plan, pilots got an average of $50,000 to $70,000 a year in pension benefits when they hit mandatory retirement at age 60. The PBGC caps pension for 60-year-old retirees at $28,500."

When UAL announced its deferment of the $72 million payment to its pension fund, it said it did so in order to "preserve its options." This was a clear indication that it is considering using its bankruptcy position either to win concessions from the union as US Airways did, or else ask a judge to nullify its existing contracts to eliminate its obligations entirely.

An article in this week's issue of *BusinessWeek* ("The Benefits Trap") notes: "If United finds a way to get out of its promises, competitors American Airlines, Delta Air Lines and Northwest Airlines are sure to try as well." If the airline industry is able to wiggle out of its pension obligations, this will set a precedent for companies across the country to follow suit, leaving retired workers who thought they had a secure income out to dry.