Court approves termination of United Airlines pension plans

Patrick Martin
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In a devastating blow to 122,000 workers and retirees, a federal bankruptcy judge ruled May 11 that United Airlines may default on its pension obligations and turn over control of its pension funds to a federal agency that is already swamped by corporate pension defaults. Judge Eugene Wedoff approved the airline management's request to terminate four pension plans—for pilots, flight attendants, mechanics and other ground service workers. The $9.8 billion pension plan default is the largest in US history.

The Pension Benefit Guaranty Corporation will take over the plans, but federal regulations limit the amount of pension payments it can make to a maximum of about $45,000 a year. The highest paid UAL workers, such as pilots, will face pension cuts of up to 50 percent, while lower-paid workers could lose as much as 20 percent. The pilots face a Catch 22: under one federal law, they are not allowed to work after age 60; under another, the proportion of their pension guaranteed by the PBGC is sharply reduced if they retire "early," i.e., before age 65.

The actual amount the PBGC will underwrite is likely to be even less than the $45,000 maximum, since the agency's resources will be exhausted within a few years by a tidal wave of corporate pension fund defaults. The initial round of defaults, notably in the steel and airline industries, has already put the agency $23 billion in deficit; the United default will add another $6.6 billion in pension liabilities to the PBGC's balance sheet. United will give the agency $1.5 billion in notes and company stock to partially offset the pension liabilities, but these securities will be worthless in the event the airline is forced into liquidation.

The difference between the $9.8 billion United owes and the $6.6 billion obligation assumed by the PBGC is $3.2 billion. This staggering sum, owed to present and future retirees under the terms of their contracts, is simply wiped out. It is the equivalent of robbing each and every pilot, flight attendant and mechanic of $267,000—although for some younger United workers, especially pilots, the individual loss will be far greater.

The United Airlines default marks a new stage in the financial disintegration of the US airline industry. United itself has lost $10 billion since 2001, and the industry as a whole has lost $30 billion. Two airlines have now defaulted on their pension obligations—US Airways, in February of this year, and now United—and many others may follow suit. Delta Airlines warned May 11 that it could soon be forced to file for bankruptcy. It has $3 billion in pension payments due over the next three years.

The industry has been in perpetual crisis since it was deregulated in the late 1970s. Bankruptcies, bitter strikes, union-busting and the liquidation of airlines like Pan Am, Eastern Airlines and TWA followed over the next 15 years. Since the 2001 terrorist attacks, the industry has been in free fall, now exacerbated by the skyrocketing price of oil, which has driven up fuel costs by 35 percent in the past year.

A spokeswoman for United Airlines called the bankruptcy judge's decision "a crucial step forward for the future of United, as it strengthens the financial platform this company needs to attract exit financing and compete effectively." But less than 24 hours later, the airline was in front of Judge Wedoff again, seeking an additional $725 million in cuts in annual labor costs for members of the International Association of Machinists and Aerospace Workers (IAM) and the Aircraft Mechanics Fraternal Association (AMFA), the unions that represent ground service workers and mechanics.

The IAM announced that 94 percent of its members have just voted to authorize a strike. AMFA members authorized a strike in a vote in January. Flight Attendants have also threatened to strike against the pension fund default. These three unions and the pilots union agreed to concession packages after United's 2002 bankruptcy filing, giving back a total of $2.5 billion a year to the company.

Wedoff has already imposed interim concessions on United workers, in effect from January through May 31. There is little doubt he will approve additional cuts, no doubt piously observing that he is actually helping the workers by "saving their jobs." The airline is demanding an additional $191 million from the Air Line Pilots Association members,

$180 million from the IAM, $138 million from the Flight Attendants and $101 million from AMFA.

UAL management maintains that any strike or work disruption is illegal under the Railway Labor Act, and last week the airline warned that it would fire workers who participated. Judge Wedoff ruled that canceling the pension plan was not the same thing as canceling the contract, bolstering the airline's position.

In effect, the contract has been transformed into a completely one-way agreement, a form of indentured servitude: workers are legally obliged to work, but the company is not legally obliged to pay the wages and benefits it previously agreed to. No airline union has every struck a carrier while it was in bankruptcy.

A strike against such conditions is absolutely justified. But such a struggle can only advance the interests of UAL workers if they break out of the organizational and political straitjacket imposed on them by the union leaders. They must reject the perspective of "equality of sacrifice" and appeals to the federal government and the Bush administration.

There can be no equality between airline workers and corporate CEOs like United's Glen Tilton—whose $4.5 million annual pension is guaranteed by his employment contract with the company, even while the pensions of pilots, mechanics and flight attendants are shredded. As for the Bush administration, it is the sworn enemy of the airline workers, the principal instrument of corporate America in its war against the working class.

It was the federal Air Transportation Stabilization Board, set up after the terrorist attacks of September 11, 2001, which directly instigated the current crisis at United. Last summer, the board denied United's request for a federal loan guarantee. The three-member panel, all appointed by Bush, indicated that United had done far too little to cut the pay and benefits of its workforce.

Airline workers are facing not merely the rapacity of a single industry, but a systematic assault on the wages, pensions, healthcare benefits and working conditions of the entire working class. The airline bosses are setting the pace of an onslaught by corporate America as a whole, which has vast implications for all working people.

Tens of millions of workers once relied on a combination of company-paid pension plans and Social Security to ensure a dignified retirement. Less than a third of workers are now covered by such pension plans, and even those that are face the increasing likelihood that their corporate employers, after exploiting their lifetime of labor, will not make good on their promises.

After the airline industry, the next big corporate pension default is likely to be in the auto industry, where nearly 1 million workers and retirees depend on pension plans underwritten by General Motors, Ford and DaimlerChrysler. Two of the three had their debt ratings reduced to junk bond status last week, with underfunded pension obligations cited as the most important reason.

Overall, according to a June 2004 report by the PBGC, the number of underfunded pension plans has risen from 166 in 1999 to 1,050 in 2003, with a total shortfall of $279 billion.

The destruction of the United Airlines workers' pensions demonstrates the real purpose of Bush's campaign for Social Security "reform." United is proposing to replace its pension plan, which provides a contractually guaranteed benefit for every retired worker, with a 401k plan paid for by the workers themselves from their own paychecks, with benefits conditioned on the performance of the stock and money markets.

This is precisely what Bush is proposing for Social Security as a whole: replacing the benefits guaranteed by the federal program with private retirement accounts at the mercy of Wall Street, and guaranteeing nothing. Bush aims to do to the entire American working class what Glen Tilton & Co. are doing to the United Airlines workers: sweep aside their retirement security and make them pay for the crisis of the profit system.

The struggle of the airline workers is therefore connected necessarily with a fight to mobilize the entire working class as an independent political force, against big business as a whole, and against the two political parties which represent the corporate elite, the Democrats as well as the Republicans.

The jobs and living standards of airline workers, as well as the safety and comfort of the traveling public, can only be secured by ending the subordination of the airlines and all major industry to the workings of the capitalist market.

As an operating principle, the goal of private profit has proven itself utterly irrational and destructive. A rational solution to the crisis requires the building of an independent and international socialist movement that has as its aim the complete reorganization of the economy. The airlines should be transformed into public utilities, run on an international basis, and placed under the democratic control of the working people.

Only on this basis can the jobs, wages, working conditions and retirement benefits of airline workers be secured, and the interests of society as a whole be defended.