Northwest and Delta executives to make millions from bankruptcies

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Over the last several years the top corporate executives at Northwest and Delta airlines negotiated retirement packages guaranteeing them millions in the event the companies declared bankruptcy and defaulted on their pension payments to employees. Both companies filed for Chapter 11 bankruptcy protection last Wednesday, in large measure to escape their pension obligations and seek the bankruptcy court's backing for sweeping cuts in airline workers' jobs, wages and benefits.

Since 2000, Delta has lost $10 billion, slashed 23,000 jobs and cut pay for pilots, managers and other employees. Three years ago the company spent more than $44 million setting up trusts to protect executives' pension benefits from creditors in case of bankruptcy, saying the perk was needed to retain executives in hard times. Because transferring money to bankruptcy-proof trusts typically triggers big tax bills for the executives, Delta inflated the amounts to compensate for the extra taxes.

Retiring CEO Leo Mullin, who was paid $13 million in compensation in 2001, was given 22 years of instant seniority—although he worked for Delta for only five-and-half years—boosting his retirement package to $16 million. While incoming CEO Gerald Grinstein took a ceremonial pay reduction to bolster the company's demands for sweeping employee wage and pension cuts, behind the scenes other executives were cashing in on the benefits of their golden parachutes.

Former CEO Ronald Allen, who was forced out in 1997, continued to draw $500,000 a year from Delta for consulting services up until 2005, although neither the company nor Allen would say whether he ever provided any such services. Allen's exit package also included a $4.5 million cash severance payment and a $765,000-a-year pension that continues. He also got 10 years' worth of perks, such as a 2,090-square-foot Buckhead, Georgia office, a car and club memberships provided by Delta.

When Northwest Airlines CEO Richard Anderson left the company last year, he took his pension in a lump-sum payment of $3,028,700. Anderson's check covered three separate pensions he received from Northwest: the regular pension plan, his excess pension plan and his supplemental executive retirement plan, or SERP. Other top executives at Northwest, including current CEO Doug Steenland, also were guaranteed three pensions.

Union workers at Northwest have a pension plan based on years of service. For mechanics, custodians and cleaners—currently on strike against Northwest's demands for the elimination of more than half their jobs and the replacement of traditional guaranteed pensions with 401(k) plans—that amounts to $85 a month for every year they work. According to the Aircraft Mechanics Fraternal Association (AMFA), a mechanic who retires at 65, after 40 years at Northwest, will collect about $40,000 a year.

The company's 2005 proxy statement indicated that CEO Steenland will receive $947,417 a year if he retires at 65. Delta's "supplemental plan" adds multipliers to boost the pensions of the company's four top executives, crediting Steenland with 15 years of service for every five he works and paying him pension credits at twice the rate applied to regular salaried workers.

The company's four top executives—Steenland and executive vice presidents Tim Griffin, Phillip Haan and Andrew Roberts—will receive a total of $2,476,100 in annual pension benefits. This is enough to fund the pensions of 90 flight attendants with comparable years of service.

In addition to their pension benefits, Northwest's top five executives (the above-mentioned, plus Executive Vice President and General Counsel Barry Simon) have taken in $32,000,721 in compensation since 2002, not including other perks such as lifetime health-care coverage and travel benefits. The five also sold more than $1 million worth of stock in the months leading up to the bankruptcy announcement, as did big investors, like professional financier and former NWA Board of Directors member Al Checchi, who sold 1,650,240 shares from April 23 to May 3, raking in $8,439,884.

The *New York Times* reported Thursday that the timing of Northwest's bankruptcy filing allowed the company to protect its assets while executives reneged on a payment of $65 million into the employee pension fund, which is already underfunded by $3.8 billion. If Northwest skipped the payment before filing for bankruptcy, it would have been in violation of federal pension laws, and the government-run Pension Benefit Guaranty Corporation (PBGC) could have placed a lien on the airline's assets, giving itself a better chance of recovering some of the money.

Instead, the newspaper noted, "[S]ince Northwest filed for bankruptcy first, then skipped the pension contribution, the government has no legal power to place a lien on its assets. It makes the pension guarantor—and the employees and retirees whose interests the government represents—into unsecured creditors for the $65 million. Unsecured creditors generally fare poorly in bankruptcy, recovering just pennies for every dollar they are owed."

If the PBGC takes over Northwest's pension plans pilots would suffer the loss of half or more of their pensions because the PBGC caps payments at $45,613 a year for plans canceled in 2005. Other unionized workers could also see drastic reductions.

Northwest also wants to freeze its current defined benefit pension plans and switch to defined contribution plans, such as 401(k)s, which are cheaper for employers but don't provide workers the guaranteed benefits of traditional pensions.

Delta's pension funds are in even worse shape. If the company defaults on its obligations it would set a record, surpassing the size of the United Airlines pension collapse earlier this year, and further staggering the overburdened pension guarantee board. According to board officials, Delta's pension plan has promised benefits worth $17.5 billion, but it only has $6.9 billion in assets. With its bankruptcy filing the company is expected to press for even more drastic cuts than it outlined in its corporate restructuring plan last year, when it announced plans to cut $5 billion and 7,000 jobs by next year.

The looting of airline workers' pension funds is but one example of how the assets of the major airlines have been squandered over the last several decades to enrich the airline bosses and big investors. It also underscores the widespread parasitism that pervades the boardrooms of corporate America.

The top personnel of the airline industry are chosen—and highly compensated—not because of their ability to manage complex organizations or to lay out a long-term corporate strategy. Instead a definite social type has risen to the top, whose only qualifications are its acuity for slashing tens of thousands of jobs and guaranteeing the quickest and largest payoffs to Wall Street.

Northwest's CEO Steenland began his career working for the Office of General Counsel for the secretary of the Department of Transportation when the Democratic administration of President Jimmy Carter was preparing the deregulation of the airline industry. He later joined a top law firm in Washington DC, which represented Pan American Air Lines during the merger frenzy that preceded the company's bankruptcy declaration, and later represented an investor group that organized the leveraged buyout of Northwest Airlines in 1989.

Steenland is particular adept at working the halls of Congress to lift regulations on pension funding and any other restrictions on profit-making, and at making use of the services of the labor bureaucracy to cut labor costs. "Since the biggest input is the wages, salaries, and benefits line, this puts a lot of attention on working with our employees in knowing what we need to do to survive in the long term," he commented.

Last year, in the midst of concession talks with the pilots union, Steenland hired Barry Simon as the company's executive vice president and general counsel. Simon was a top executive in the Seabury Group, a New York consulting firm whose "restructuring" clients have included Air Canada, US Airways, America West Airlines and Continental.

Simon earned his credentials as an executive at Continental and Eastern airlines, where he served under corporate raider and union-buster Frank Lorenzo. In 1983 Continental filed for bankruptcy—despite the airline's $60 million in cash reserves—in order to exploit a provision in the Bankruptcy Code allowing Lorenzo to abrogate his contracts with the unions. Simon directed Continental's legal strategy when it emerged from bankruptcy a second time in 1991.

Simon also played a leading role in the bankruptcy of Eastern Airlines, which stopped flying in 1991 following the bitter strike by unionized mechanics. At the time, Lorenzo and his team stripped the airline of valuable assets and sold them at fire-sale prices to Continental.

The 1980s and 1990s saw the emergence of junk-bond dealers and corporate raiders in the airline industry like Lorenzo and Carl Icahn (who bankrupted Trans World Airlines, among others, and who is now worth $5.8 billion—no. 55 on the list of the world's richest people).

Today, after nearly a quarter of a century of betrayals by the trade union bureaucracy (from the striking air traffic controllers in 1981 to the present scabbing organized by the airline unions against the striking Northwest mechanics), the corporate executives running the airlines feel even less restraint than their predecessors did when slashing workers' jobs, wages and benefits and looting company assets to enrich themselves.