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## Documentation

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### 'The United Decision Was Not PBGC's Only Choice'

*Excerpts from the testimony of Dr. Teresa Ghilarducci, Ph.D., Associate Professor of Economics and Director of the Monsignor Higgins Labor Research Center, at the University of Notre Dame, Indiana, to the e-hearing held June 13 by California Democrat Rep. George Miller on the United Airlines Pension Crisis.*

What is happening in airlines happened in railroads in the early 1900s. The first private defined-benefit pension plans were established by railroads in 1865; they were the airlines of their day. In 1919, the maturing defined-benefit railroad pension plans were threatening to default for two familiar reasons. Workers were beginning to retire in large numbers, and small start-up companies, that paid low wages and provided no benefits, invaded the legacy railroads' routes by slashing haul rates.

The nation could have chosen to allow what the PBGC and United Airlines agreed to happen—let pensions default and have the workers pay for the industrial restructuring. But the American decision-makers viewed that solution as unfair, and the government mandated a multi-employer pension plan, the Railroad Retirement Fund, that all railroads pay into. The

rationale was that the low-cost, start-up companies were taking advantage of the infrastructure the mature, legacy railroads and their workers created, and needed to pay for the legacy benefits they were enjoying. To this day, railroad workers have a strong defined-benefit plan, portable anywhere in the industry, regardless of the death and birth of individual railroad companies.

## Solutions

The PBGC should have had a different orientation in the United Airlines case, and sought a creative solution to the airline industry crises. The PBGC is, by law, the advocate for the DB [defined-benefit pension—ed.] system. One good idea is to segregate the airline liabilities from the other PBGC liabilities. The agency does this occasionally with idiosyncratic bankruptcies like TWA. Since the airline pension liabilities were created by industrial restructuring, the industry should pay off the debt incurred when the industry made its investments in establishing air travel as a popular and profitable business. All the airlines, workers, customers, and shareholders—United, and the low-cost start-ups like Jet Blue, etc.—could pay a \$1-2 surcharge on a plane ticket to restore the airline workers' pensions. (Congress and Secretary of Labor Elizabeth Dole created a similar tax for coal, to pay off miners' health liabilities.)

Another creative solution is to put all airline employees into an airline retirement fund like the railroad workers. Delta and the [other] airlines will keep their DB plans, not be forced to follow United and crash their plans. Once airlines are out of the PBGC and into a multi-employer plan for the industry, the rest of the defined-benefit system will be in better shape.

I am mostly disappointed in the PBGC and the Bush Administration for not living up to the law<sup>1</sup> that mandates [that] the PBGC seek ways to strengthen the defined-benefit system. By siding with United Airlines, the PBGC is violating its statutory responsibility and weakening the DB system.

## Future of Defined-Benefit System

It would be wrong to take away the lesson from the United Airlines bankruptcy and pension default that the idea of pension insurance is deeply flawed or that defined-benefit pension plans are extinct and of no further use to employers. Companies sponsor defined-benefit plans for vital economic reasons: They help retain valuable employees; they provide long-service workers with a certain pension source, that, combined with Social Security and some home equity and health insurance, can carry a middle-class worker into a middle-class retirement.

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1. The Employee Retirement Income Security Act: (Title 29 Chapter 18, Subchapter 111 USC Sec. 1302) gives three duties to the Pension Benefit Guaranty Corporation. The first is "to encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants."

## 'Life or Death for Retirees'

*Testimony of Robert Roach, Jr., Transportation General Vice President, International Association of Machinists and Aerospace Workers, to the June 13 e-hearing.*

Thank you, Congressman Miller, for giving me the opportunity to testify today on an issue that will have a profound impact on America's working families. United Airlines and the U.S. airline industry are trying to pull the retirement rug out from more than 100,000 employees by terminating their pension benefits. That is wrong and Congress should not allow it to happen. We support your efforts to stop corporate America's attempt to dump billions of dollars of their pension responsibilities onto the U.S. taxpayer, and rob millions of workers of a retirement with dignity after a lifetime of work.

As the general vice president of transportation for the International Association of Machinists and Aerospace Workers (IAM), AFL-CIO, I represent more than 150,000 active and retired members who work in America's airline and railroad industries. Furthermore, as a former TWA employee who had his own pension terminated, I know firsthand how it feels to have a company break its pension promise.

Our airline members are dedicated professionals who repair airplanes, take reservations, greet passengers at the ticket counter and gates, keep passengers safe in the air, load and unload aircraft, and perform the behind-the-scenes jobs that make commercial aviation the safest mode of travel in history. IAM members and thousands of other airline employees have made extraordinary sacrifices since the Sept. 11 attacks that struck at the heart of our industry. Airline workers have endured bankruptcy proceedings, pay cuts, short-staffing, and all manner of hardships. Yet they've stayed at their jobs and kept the public safe when they fly. Our members have struggled through tremendous hardships, yet they give their all, day in and day out. As evidence, United Airlines entered bankruptcy in 2002, but remains an industry leader in on-time performance. . . .

Airline employees have paid too high a price and they need help. As members of Congress, you can provide that help. As the heart-wrenching stories our members and other airline workers will put before this hearing, you will hear the real consequences of airline managements' actions. Taking over airline pensions may be a balance-sheet problem for Pension Benefit Guaranty Corporation accountants, but for our retirees it means a choice between having food or medicine, or working until death to make ends meet. And for retirees with serious health problems, cutting retiree health benefits literally means life or death for them.

The Machinists Union has made extraordinary efforts to

alleviate the crisis in the airline industry. . . . But corporate America must live up to its responsibilities. Their relentless efforts to dump pensions and retiree medical coverage are turning what should be the golden years into a living nightmare. America can't have a safe and efficient air-transportation system without career airline employees. And you won't have that, if airline management is allowed to go back on its promises and responsibilities to its workers. . . .

## 'The PBGC Decision Is Just Wrong'

*Excerpts of testimony by United Airlines employees, retirees, and their families, submitted to the June 13 e-Hearing.*

**Ellen Saracini**, Yardley, Pa.

My name is Ellen Saracini. My husband, Capt. Victor J. Saracini, was the captain of United Flight 175 that struck the south tower of the World Trade Center on Sept. 11, 2001, at 9:03 a.m. While no one could have imagined the events of that infamous day, neither could Victor have imagined what would be happening right now to his wife and his two daughters. . . . I am currently receiving the spousal portion of Victor's pension, which is 50% of what he thought would be there for his family. After United took away our ESOP stock [Employee Stock Option Plan of 1993—now worthless, but accepted by employees to keep United in business—ed.], this pension is how I am supporting our two daughters and myself.

I was given a choice to sue the airlines, Port Authority, and others, or join in the victims' compensation fund set up by the government. I pledged I would not sue and proceeded with the fund; after all, this is the company Victor was so proud to work for. . . . Every bit of preparation that Victor and I worked for was used against the claim. Life insurance was deducted. My full pension was deducted from the award. Now I will have a double jeopardy, as I will again lose my pension with no recourse on either side. . . .

I can't help but to ask myself at what point are companies allowed to take away so much from the lives of dedicated employees and families? . . . The PBGC's decision to allow United Airlines to end their pensions is just wrong.

**Michael Fitch**, Clearville, Pa.

I am a United pilot who retired in 2002, following 37 years of service. . . . We set up our post-retirement lifestyle based upon the expectation of living within the means of my pension, which is based upon deferred compensation from my working years. Recently retired pilots such as myself appear to be about to lose 70 to 90% of promised pensions. Because Federal law requires we retired at age 60, there is no way I can return to the workforce in my profession in an

attempt to recoup some of the losses. Most recently retired pilots are not yet eligible to receive Social Security benefits, and many will be forced to take a reduced amount by electing benefits to begin at age 62.

Also, recent modifications to United retiree medical benefits have substantially increased my living costs. We anticipate that eventually they will attempt to also terminate all of my medical benefits. Replacing our health coverage in the open market may well consume half of any amounts I might receive from the PBGC.

United's attempt to unlevel the playing field in order to achieve a massive, unconscionable, and immoral competitive advantage in the airline industry, will inevitably trigger other Chapter 11 filings and pension terminations; this will produce a staggering domino effect which will involve any worker who has a defined-benefit pension. . . .

**Angela M. Mogaverok**, Schenectady, N.Y.

I am a flight attendant who retired in June 2003, after 32+ years. I retired earlier than I had intended, as did so many others, because of United's promise to continue medical benefits at lower cost and higher coverage for people who retired before July 1, 2003. Because of my age, I took a 24% cut in my pension, but I thought it would be offset to a degree by lower medical costs.

I was concerned about the medical coverage because I am the lone parent of a disabled child who had six surgeries the year that I was forced into retirement. Of course, six months into that retirement, United broke its promise, and our medical costs soared. . . . After 32 years of work, my *full* pension is only \$1,300/month, and that is *before* medical deductions, taxes, etc.

What is wrong with this country? Health care is a luxury, companies declare bankruptcy and are rewarded for it with legal loopholes, while hard-working individuals who may *need* to declare bankruptcy (particularly for medical reasons) are placed in a stranglehold. . . .

The PBGC is in worse financial straits than United. If this decision is allowed to stand, other companies will surely flood the gates to rid themselves of the burden of defined-benefit pensions. This will be followed by either the demise of the PBGC, or by great burdens to taxpayers. . . .

**Thomas A. Gardiner**, Bainbridge Island, Wash.

I am a captain for United Airlines with a total of 27 years of service. . . . If the PBGC takes over the pilots' defined-benefit plan, I will lose at least two thirds of my promised pension. This is *after* voluntarily agreeing to formula changes two years ago that reduced my expected benefit by about 30%. In short . . . the PBGC maximum payout to me will be about 20% of what I originally expected.

The FAA regulations require me to retire at age 60. The PBGC considers that to be "early," and takes away 35% of what I would otherwise receive from them.

I feel United and the PBGC have rushed to judgment of

this matter. . . . I am retiring in 16 months, and have no time to recover these losses.

**Sunny Miller**, San Diego, Calif.

Congress recently changed the individual bankruptcy law so that a person who has the ability to pay can't just declare bankruptcy and dump their debts. If United stays in business sometime in the future, they will have the ability to pay. There is enough funding now in the pension funds to continue with them for some time. If the liability of the pensions by United could be stretched out, they would have the ability to pay. United and other companies should be held to the same standards as individuals in bankruptcy.

**Adam Thomas**, Oceanside, Calif.

I am 28 years old, and have been flying for United for eight years. I am young and have plenty of time to work and build a retirement income. But it would be the mistake of my generation to give up defined-benefit pension plans in exchange for 401(k) or defined contribution plans. Things have become exponentially more expensive for my generation. . . .

**Donna Hart**, Glen Ellyn, Ill.

I have been a single working mom since my children were ages four and two. I am currently 51 years old and have served honorably in my profession as a United Airlines flight attendant for over 26 years. . . .

According to the PBGC literature I received, I will likely receive only \$200-400 of my pension. Estimates, if I had retired with 30 years of service, and age 62, were a modest pension of \$1,700. My pension, combined with Social Security, was to provide me with a modest retired income of \$2,800 per month for a lifetime of work. How, at age 51, can I possibly make up my pension losses?

**Michael O'Meara**, Chester, Va.

My wife and I both retired from United Airlines in 2003. I had 34.5 years and she had 15. We were told by United that if we retired before July 1, 2003, with a reduced monthly benefit, that United would continue to provide our medical insurance at a very modest cost to us. That "promise" lasted less than one year. In 1994, we were forced to join an ESOP [Employee Stock Option Plan], whereby in exchange for reduced pay, we would accumulate United stock. The accumulation of that stock offset or prevented contributions to 401(k) plans. In July 2004, United said they could no longer fund our pensions. Despite this they have still lost a record amount of money.

Object mismanagement of the airlines has been brought about by the Airline Deregulation Act of 1978. There is too much "competition," too much wasted energy resources, "fare sales" when oil is \$50 per barrel, cheaper airfare "entitlements," frequent-flyer schemes, etc.

Now we are retired with a potential fractional pension

from the PBGC, little or no 401(k) because of the ESOP, and a bleak future for both Social Security and Medicare. No surprisingly, all the former CEOs are multi-millionaires.

**Tony Pasannante**, Boring, Ore.

I retired Oct. 1, 2004, after being lucky enough to enjoy almost 38 years of flying for United. . . .

Pension income is more than a promise. It's an obligation. An obligation that all of us already paid for in the form of deferred compensation. The money in these funds belongs to the collective "us," and now we find that United can simply walk away from their obligation. . . . Complicit in all of this is the U.S. Government in the form of the PBGC and the pact they signed with the corporation devil.

Why can United afford to issue \$1.5 billion in notes and equities, but cannot afford to work out an alternative to summary termination?

I believe there is a good chance that the PBGC, by agreeing to this evil pact, is in violation of the mandate imposed on it by ERISA [Federal Employee Retirement Income Security Act]. Is anyone investigating this?

**Ken van Wormer**, Alpine, Calif.

If this UAL/PBGC action is not stopped, what do you think will happen to America? This is just the tip of the iceberg. How many other companies do you think will follow? The S&L bailout will look like a bag of peanuts compared to what is about to happen. What do you think will happen when the auto manufacturers do the same thing with their pensions?

**Dan Duke**, Evergreen, Colo.

I am a senior captain with United Airlines. . . .

United's strategy of dumping its pension liability, creative as it is, will cascade throughout our industry. Congress needs to stop the strategy now.

. . . You could force any company that wants to continue in operation to continue to fund its pension obligations as a cost of doing business. (All of these plans have stopped accruing benefits—we are only talking about past obligations.)

You could move the pension liability up the priority order in bankruptcy court. I can guarantee that if wages and pensions ranked above secured creditors and non-secured creditors, we would not be faced with the option of dumping our liabilities on the PBGC. . . .

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