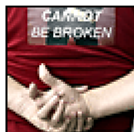
SFGate.com

United's pension dilemma

David Lazarus
Wednesday, August 25, 2004



United Airlines says it likely will end funding for employee pension plans, a move that would be the largest ever default by a U.S. company and could lead to a taxpayer-funded bailout rivaling the savings-and-loan fiasco of the 1980s.

Glenn Tilton, United's chairman and chief exec, has stressed that the pension issue is central to the carrier's efforts to exit bankruptcy proceedings.

"I can tell you, without any doubt, that to achieve that ambition we are going to have to make tough choices," he recently told employees in a recorded message. "Decisions that seem very tough today will be the decisions that will reposition this company to the benefit of our employees and other stakeholders in the long term."

Strong words for a man whose own $4.5 million pension was safely locked away in a special trust when he joined United in September 2002, just three months before the airline filed for Chapter 11.

Tilton's fully funded, unbreakable pension trust was part of an elaborate compensation package created when he arrived at the troubled carrier. He walked away from his pension benefits at San Ramon's ChevronTexaco, where he previously served as vice chairman.

Along with the pension trust and a starting salary of $950,000 -- subsequently reduced to $712,500 -- Tilton received a $3 million signing bonus and 100,000 shares in United's parent company, UAL Corp.

"Talk is cheap for someone whose own pension is not in play," said Joe Tiberi, a spokesman for the International Association of Machinists, which represents more than 30,000 active and retired United workers.

"Members are beside themselves," he said. "They can't understand how something they worked for is being taken away. This isn't a perk or a benefit. This is something they earned over the years as part of their compensation."

United confirmed in court documents last week that it probably will end its four pension plans as part of efforts to restore corporate viability. The plans cover about 120,000 workers and retirees.

United is scheduled to pay $500 million in pension contributions this year and more than $4 billion by the end of 2008.

Jean Medina, a United spokeswoman, said the company still hopes it won't have to default on its pension plans.

"But right now," she said, "we don't see how we can maintain liquidity and meet those pension payments."

Medina acknowledged that Tilton's own pension is not on the table. "It's a separate trust that addresses what he was forgoing by agreeing to join United," she said.

Mark Johnson, a Texas benefits consultant, said Tilton's pension trust will make it especially difficult for United employees to swallow any cutbacks to their own plans.

And Johnson should know. Prior to becoming a consultant in late 2001, he served as managing director of benefits compliance and pensions for American Airlines.

Johnson oversaw seven pension plans for about 110,000 workers, with total assets of $14 billion.

"Obviously that kind of stuff doesn't go over well with employees when you're asking for big concessions," he said of Tilton's pension trust. "I wouldn't want to be at that bargaining table."

If United does indeed scrap its pension plans, the burden would fall to the government-sponsored Pension Benefits Guaranty Corp., which insures pensions.

However, the pension agency already faces an almost $11 billion shortfall resulting from the failure of several steel industry plans. Its deficit would balloon to more than $16 billion if United leaves workers hanging.

Worse, a pension default by United is widely expected to prompt rival carriers to do the same.

"There will be tremendous pressure on other airlines to find equivalent savings," Johnson said, adding that Delta and American may be among the first to announce that they too are abandoning their employees' pensions.

"It's very, very serious," he said. "We're talking about a very large amount of money."

The pension agency is funded by premiums from employers with their own insured plans.

However, agency officials have warned that if the amount of pension debt increases much more, taxpayers may be called upon to carry the load, just as they were in the S&L mess.

"Healthy plans don't like paying premiums for unhealthy plans," Johnson observed.

United's Tilton is 55, so he probably won't be retiring in the near future. He's one of the precious few, though, whose financial security is assured.

That settles that: In June 2003, Dick Kovacevich, the chief exec of Wells Fargo, published a letter in these pages protesting a column in which I wrote how the bank requires customers to "opt out" from having personal information shared with other companies.

"By Wells Fargo's reckoning," I wrote, "those who do not go to the trouble of opting out are implicitly authorizing the bank to sell, barter or otherwise hand out all info on application forms, information related to your credit history, and details of account balances and credit card usage."

"Wrong," responded Kovacevich. "Nothing could be further from the truth; Wells Fargo does not sell customer information to any third parties."

He added: "We always maintain control of customers' information, and it cannot be used or sold by anyone, as Lazarus implied. This information cannot be used by or sold to telemarketers. We think this is a very important point and Lazarus' column misrepresents what we do."

On Monday, Wells Fargo agreed to pay $3.2 million to charities and provide $3.5 million in free services to settle a lawsuit charging the bank with illegally selling customers' info to telemarketers.

Julia Tunis, a bank spokeswoman, told me Tuesday that "Wells Fargo maintains that it did nothing wrong and did not violate any laws."

Settling the lawsuit, she said, "is not an admission of wrongdoing but rather was the best way to resolve this matter" for both shareholders and customers.

There you go.

David Lazarus' column appears Wednesdays, Fridays and Sundays. He also can be seen regularly on KTVU's "Mornings on 2." Send tips or feedback to dlazarus@sfchronicle.com.

http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2004/08/25/BUGKL8DO1Q1.DTL

This article appeared on page **C - 1** of the San Francisco Chronicle