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Timing is everything for workers with terminated pensions

With terminated pensions, timing makes all the difference in benefit payouts

By Andrea Coombes, MarketWatch
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SAN FRANCISCO (MarketWatch) -- They're all United Airlines pilots, they're all expecting a pension check, but they're all facing vastly different retirements since the bankrupt airline shrugged off its pension plan.





Mark Zenner is just a year away from retiring, but instead of enjoying days of leisure, he'll be job hunting, now that United Airlines' bankruptcy filing and pension termination cut his expected monthly pension check by about 74%, to \$1,800 a month from an expected \$6,800. With one daughter still in college and a wife to support, the 59-year-old Zenner says, "I'll work until I die."

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Tom Martin is 68 years old. After 30 years on the job, he retired as a United Airlines pilot eight years ago. When United ([UAUA: news](#)) filed bankruptcy and then turned over its pension plan in October, his check shrunk by about 40%.

But luckily for Martin, when he retired he sold most of his United stock for \$85 a share, then rolled the money into an IRA, which provides a tidy sum to live on every month. Zenner, on the other hand, watched his \$250,000 worth of United shares in the employee stock plan shrink to \$5,000 by the time United filed for bankruptcy.

Still, even Martin is worried. The cut to his pension check means he now faces a more precarious future. A hit to his IRA from, say, a sharp market downturn would put him on difficult financial footing, and could force him back into the job market, where the prospects are slim for a man who only knows one profession -- how to fly an airplane. But for now, Martin says, he's still "quite well off."

Gary McGaughey falls somewhere between Zenner and Martin. He's a United pilot who retired four years ago, after more than 35 years with the company. When United filed bankruptcy and turned its plan over, his pension check lost almost 60% of its value.

"I'm not going to live as well as I had hoped," McGaughey, 64, says. "There are things I felt I could do for my grandchildren, as far as college expenses." Those plans are on hold, but he says, "I'll get along," mainly because he entered retirement carrying no





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debt. He plans to keep it that way.

"I don't have to have a new car or a bunch of things like that. I can get along on what I've got, but I feel really, really cheated and betrayed," he says.

Pilots face steep cuts

These three men are not alone. Pilots are among the hardest hit groups when companies turn their pensions over to the Pension Benefit Guaranty Corp., the employer-funded agency that insures pensions for 44 million Americans.

When a company files for bankruptcy protection, the judge can allow the firm to pass its pension obligations to the PBGC, which then pays out all or a portion of the benefits to retirees, and to workers when they retire. The PBGC is funded by the premiums companies pay to insure their plans. Plus, the agency takes over any remaining assets in plans it adopts.

United Airlines' pension is just the latest -- and the biggest at \$6.6 billion -- in a long line of company retirement plans shoved onto the agency, which now faces a budget crisis of its own.

Pilots face a double whammy: Their high salaries mean their expected pension payout is big compared to other workers (pension checks are calculated based on earnings), far exceeding the PBGC's maximum payout.

On top of that, federal law requires pilots retire at age 60, but the PBGC considers that early retirement -- 65 is "normal" -- and dings their benefits.

It's not an insubstantial ding: The agency's maximum annual payout for a single 65-year old in a plan terminated in 2006 is \$47,659.

For a 60-year-old retiree, the maximum is \$30,978, a difference of more than \$16,600.

"If you have a really high pension, you have a problem," said James Wooten, a law professor at University at Buffalo Law School, and a pension expert.

Another group that gets hit hard: "People who have subsidized early retirement benefits," he said, because of the PBGC's lower maximum payouts for early retirees.

"Pilot pensions and early retirees are the main places you see cuts," he said.

Even before the PBGC takes over a plan, highly-paid workers like pilots often pay a price because they were counting on "non-qualified pensions" -- pensions which aren't protected by the PBGC -- which are then discontinued.

Martin, Zenner and the others saw such steep percentage drops in their pension checks partly because the non-qualified portion of their pension disappeared when United filed bankruptcy.

Bigger claims, steeper cuts

Until recently, about 90% of pension-plan participants got the benefit they were due if the PBGC took over their pension, and the remaining 10% faced a benefit cut, the PBGC says.

But after taking on United's plan, that percentage is changing.

"A lot of the plans we take over, frankly, have very low benefits and the people don't come near the ceilings on those benefits. But in some, like United Airlines, there were a lot of people who received reductions," said Jeffrey Speicher, a spokesman with the PBGC.

Of the 6,700 currently retired pilots covered by United's plan, 43% got a benefit cut after the PBGC took over the plan, the agency said.

Other workers don't face such steep cuts, mainly because their plans were never so generous to begin with. United's flight attendants are an example: They're less likely than pilots to suffer a hit to their pension check. But, again, age matters.

"Fortunately, I happened to be the right age at the right time," says Cicina Norton, 63, who retired in 2003 after 38 years of working as a United Airlines flight attendant.

"A lot of ladies that were younger than I, in their fifties, they're taking severe cuts," she says.

Stan Kino is 55 years old and has been a flight attendant for 34 years, first with PanAm and then with United. He'd hoped to retire in the next year or two, but now, because of a smaller pension check, Kino says he'll delay retirement.

Retirement "will be much later than I thought it would be," Kino said, noting that if he were to retire next year his pension would be about \$1,300 monthly.

He may continue flying, but he says the physical nature of the job may prevent that. If it does, "I will have to find something that I'm capable of doing to supplement the income. It will depend on how much I can save. It's a real unknown. It's a real unclear future."

Yet another fear for the 1.3 million workers and retirees to whom the PBGC now sends or will send pension checks: The agency is insolvent. While it's able to pay the checks it owes now, its outstanding liabilities exceed assets by \$23 billion. And if one more large company decides to off-load its pension, the agency could be in need of a bailout.

"I watch General Motors like a hawk. If they go belly-up they might bring the PBGC down," said Norton, the former United flight attendant.

Take the money and run

Meanwhile, thousands more worry about the fate of their pension plans, as their employers enter bankruptcy -- or seem likely to do so in the future.

Debra Schmidt was a salaried employee at General Motors Corp. until about a year ago, when she accepted a company buyout offer. Schmidt, now 46, recently took a lump-sum payout of her pension.

She would have collected more money at retirement had she left the money in the pension plan, but she and some of her former GM ([GM: news](#)) co-workers decided to take lump sums when the company froze the plan.

"We were just real nervous that the company is going to go under or that that money will somehow disappear," said Schmidt, who was a business manager in the engineering department and is now starting her own business.

If she'd left the money at GM, she was promised about \$1,500 per month after age 65 (compare that to the \$4,500 a month she expected before GM froze its pension plan).

She chose an immediate lump sum. Now, she says, she no longer has to worry about GM's long-term financial viability.

Other auto workers are worried. Delphi, the auto-parts supplier that GM spun off in 1999, filed for bankruptcy protection in October, and Delphi and GM recently offered hundreds of thousands of workers early retirement.

Delphi workers are "afraid of their employment status, so they're likely to take the buyout," said Gregg Shotwell, a machine operator at Delphi who's worked at the company for the past 25 years.

"People are saying, 'Well, it's not what I wanted to do, but I can survive' ... it's no longer 'this is my retirement plan, my choice, I'm going to travel.'"

'Earned compensation'

Despite the huge hit to their retirement income, United Airlines pilots will still receive a pension check, one that will bolster their Social Security payout and any other savings. That's not the situation for the millions of workers who've never come close to a traditional pension plan. For those workers, it might be hard to sympathize with pilots who can still count on guaranteed income of more than \$1,000.

But it's a question of fairness, some say.

"You have workers who have a long career with companies with a plan, they're in their 50s, they're not in their 20s, when somebody says, 'Ah, the rules of the game have changed,'" says Alicia Munnell, director of Boston College's Center for Retirement Research.

"These people don't have the option to change all their arrangements and compensate for this prospect of getting less pension money than they thought they were going to get initially," she said.

Mark Zenner might agree. Back when his pension check seemed like a sure thing, he saved for his kids' college rather than squirreling money away in his 401(k). His youngest daughter will be graduating from college the same month Zenner is scheduled to retire. He says, "I call that pilot error."

These days, he rues his bad planning, but he never considered the fact that his pension might be decimated.

Zenner and other pilots note, too, that their pension was part of their compensation: Its generous benefits came at the expense of other cuts in compensation at the bargaining table. Zenner watched his salary drop 40% in the past six years.

"Our pensions were not a gift of United Airlines to the pilots," said Tom Martin, the retired pilot. "All of our pensions were part of our negotiated contract settlements," he said.

"If we had known that our pension was not going to last us for the rest of our lives, we certainly would not have negotiated away working conditions, current wages or wage increases, for the future benefits of a lifetime pension."

Andrea Coombes is a reporter for MarketWatch in San Francisco.

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