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Delta Takes Steps to Avert Mass Retirement of Pilots

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By [MARY WILLIAMS WALSH](#) and [JEFF BAILEY](#)

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[Delta Air Lines](#) said yesterday that it planned to terminate the pension plan covering 13,000 active and retired pilots and some spouses, a move intended to save billions of dollars and also prevent an exodus of pilots that could have brought much of the carrier's operations to a halt.

If Delta had not begun steps to terminate the plan, an unusual set of circumstances could have prompted as many as 1,000 Delta pilots to retire as early as July 1. They would have pulled hundreds of millions of dollars out of the plan, and, by their absence, grounded a big portion of Delta's fleet.

"The lump sum is effectively gone now," said Chris Kelly, a Delta spokeswoman, and with it the threat of mass retirements.

Operating under bankruptcy law protection since Sept. 14, Delta, based in Atlanta, is scrambling to cut operating costs and financial obligations. Delta has a second major pension plan covering 91,000 active and retired flight attendants and ground workers. That plan is larger than the pilots' plan and suffers from a larger deficit.

The Pension Benefit [Guaranty Corporation](#), the federal agency that backstops private pensions, estimated the day after Delta's bankruptcy filing that its entire pension obligations were underfunded by \$10.6 billion. Delta, using a different accounting method, estimated the plans were \$6.37 billion shy of their obligations.

The company would not disclose yesterday how much of the total shortfall comes from the pilots' plan. In recent years, the pension agency has taken over big troubled funds from United Airlines and US Airways, and the agency itself now faces a huge deficit.

For now at least, Delta is not trying to terminate the other pension plan. But it is seeking federal legislation that would let it stretch out its payments on the nonpilot pension plan over 20 years. Absent such legislation, Delta would probably terminate the larger plan as well.

The pilots' pension plan, meanwhile, could have caused "a true operational catastrophe," one company lawyer said in bankruptcy court. "Hundreds of thousands of

passengers would be stranded all over the world, many for an extended period," the lawyer for Delta, Marshall S. Huebner, said last May in United States Bankruptcy Court for the Southern District of New York.

The pension plan could do this, Mr. Huebner said, because it gave pilots the right to take half of their total lifetime benefit in a lump sum.

Lump sums have become popular in recent years, but they can pose a grave danger to a pension plan at a company that is in financial trouble. In such cases, retirement-age employees start to worry that if their plan fails, they will lose benefits. So to protect themselves, they tend to start retiring en masse. It is like a bank run.

Such a run occurred at Delta last year, when more than 1,100 pilots took early retirement in just a few months. They stripped \$873 million out of the plan.

By law, a plan may not pay lump sums unless it has liquid assets worth at least three times the previous year's payouts. When the rush of retiring pilots took Delta's plan below that level, it went into a liquidity shortfall and the lump sum payments stopped, much to the anguish of pilots who did not get a chance to take theirs.

After the hemorrhaging stopped, the investments in the pilots' plan began to recover. Mr. Huebner, the lawyer, said in his bankruptcy court appearance that the plan might be out of the liquidity shortfall when Delta's actuary measured it on July 1. If that happened, he said, Delta would have no choice but to open the floodgates to lump sum payments again.

"If the pilot plan actually comes out of liquidity shortfall, Delta will likely be devastated," Mr. Huebner said. The airline has calculated that 800 to 1,000 of its most senior pilots would immediately retire. More than 900 have earned lump sums of more than \$500,000, and some have earned more than \$1 million.





That would suck another \$560 million out of the pension plan. But the blow to Delta would be even worse, Mr. Huebner said. Its pilots over age 50 have the right to retire with only a few moments' notice.

If hundreds of pilots retired on July 1, Mr. Huebner said, 46 of Delta's 51 biggest aircraft would be grounded and up to 60 percent of its international operations would have to shut down. "The negative financial impact to Delta of this occurrence would be in the billions of dollars," in addition to the pension plan's losses, Mr. Huebner said.

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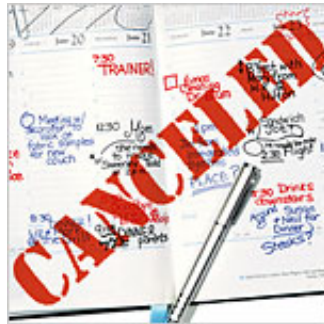
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