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# United Air Wins Right to Default on Its Employee Pension Plans

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By [MICHELINE MAYNARD](#)

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United Airlines, which is operating in bankruptcy protection, received court permission yesterday to terminate its four employee pension plans, setting off the largest pension default in the three decades that the government has guaranteed pensions.

The ruling by Judge Eugene R. Wedoff of Federal Bankruptcy Court came after a lengthy hearing in a crowded Chicago courtroom, near where United is based.

Despite pleas by union lawyers, Judge Wedoff sided with United, which had insisted that it could not emerge from bankruptcy protection with its pension plans in place.

The ruling releases United, a unit of the UAL Corporation, from \$3.2 billion in pension obligations over the next five years. The federal agency that guarantees pensions, the Pension Benefit [Guaranty Corporation](#), will assume responsibility for the plans, which cover about 134,000 people.

Some retirees could see sharply lower pension payments as a result; others will see little change in benefits, depending on a variety of factors. Some retirees at US Airways, which has terminated its plans, have seen benefits drop by as much as 50 percent.

The airline, which has been in bankruptcy protection since December 2002, has been pushing to end its pensions since losing its bid for a federal loan package last year. But unions representing United's employees fought the action, threatening to strike if the pensions were set aside.

Along with raising that prospect, the action has significant implications for the airline industry, which has lost more than \$30 billion since 2000, and perhaps for other industries like automobiles, with similarly heavy legacy costs.

Analysts have predicted that if United won its case, there could be a domino effect as other airlines are forced to seek bankruptcy protection to bring their pension costs down to United's levels.

That move would probably swamp the pension agency, which was created in 1974.

"It's a scale, and this is another weight on the side of the scale that puts pressure on the other airlines to follow in United's footsteps," said Gary M. Ford, a lawyer specializing in pension and bankruptcy issues at the Groom Law Group who is representing some of the other large airlines. "The question is, Do you want to just watch this movie again, or is Congress going to act in a way that would make these plans affordable for the remaining carriers?"

Legislation has been introduced in Congress that would allow major airlines to stretch out \$20 billion in unpaid pension liabilities over 25 years, but the measure's future is uncertain.

US Airways, which is under court protection for the second time since 2002, terminated the last of its pension plans earlier this year. As a result, the federal government has taken over the responsibility to pay US Airways' current and future retirees \$3 billion worth of benefits.

And [Delta Air Lines](#) disclosed yesterday that it might have to seek bankruptcy protection if it is not able to renegotiate terms of more than \$600 million in loans, or if its cash reserves dwindle. It also said it expected a significant loss for 2005. The disclosure, made in a securities filing, caused a 10 percent decline in Delta stock.

Although the ruling freed United from \$3.2 billion in pension contributions over five years, even that amount

would not fully finance the plan. If United had been able to pay it, the amount would have simply brought it into compliance. The government measures United's pension shortfall at close to \$9.8 billion.

United plans to switch its current employees from traditional retirement programs, which are called defined-benefit plans, to defined-contribution plans like 401(k) programs. The federal pension agency will assume responsibility for United's plans, which cover about 134,000 workers.

"It's a hammer blow to thousands of retirees who will have to somehow make do with lower pension checks," said Joseph Tiberi, a spokesman for the International Association of Machinists and Aerospace Workers. "The promises United made to them are worthless,"

Mr. Tiberi said his union would appeal the judge's decision.

But Judge Wedoff, speaking to a courtroom packed with United employees and retirees, said the move was unavoidable.

"The least bad of the available choices here," the judge said, "has got to be the one that keeps an airline functioning, that keeps employees being paid."

United, meanwhile, called the action an important step in its bid to restructure.

The termination at United is nearly three times the size of the 2002 default by [Bethlehem Steel](#).

Last month, United reached agreement with the agency on a \$1.5 billion plan that would give the agency a stake in United, along with other debt, when the airline emerges from bankruptcy protection.

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Mary Williams Walsh contributed reporting for this article.

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