

# Human Toll of a Pension Default

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Ellen Saracini lost her husband, United Airlines Capt. Victor J. Saracini, when his Flight 175 crashed into the World Trade Center on Sept. 11, 2001. Now she stands to lose more than half of her widow's pension in a very different kind of crash — United's default of its \$9 billion pension obligations.

The scale of the default, the largest in U.S. history, has received more attention than the toll on the lives of the bankrupt airline's 120,000 employees and pensioners. Saracini discussed its impact on her and her two daughters in an interview yesterday, saying she hopes her story will help shift the focus to the laws and policies that allow such defaults.

"My own situation is not a crisis — I have my husband's life insurance to keep us secure in our house," she said from her home in Yardley, Pa. "But a lot of other people have real hardship — medical costs they won't be able to afford, houses they won't be able to keep. If I can help draw attention to them, I'll do it in a heartbeat."

Saracini was among about 2,000 United pensioners and employees who e-mailed their stories to Rep. George Miller (D-Calif.) in recent days for what he called an online hearing on the human impact of the default. "We have been overwhelmed — both numerically and emotionally — by the response," said Miller, one of several politicians in both parties warning that a wider crisis will loom if the nation's pension security laws are not revised.

More than 20 other companies have defaulted on pension funds of

more than \$100 million in the past three years, and last week, executives of troubled Delta and Northwest airlines said they may be next. Miller has proposed a six-month moratorium on defaults, as Congress debates how to fix what many lawmakers call "broken" pension protection laws.

"Like Enron, workers' lives and retirements have been ruined," Sen. Charles E. Grassley (R-Iowa) said last week. "But unfortunately, this time it's perfectly legal."

In e-mails to Miller that his staff is posting online, and in interviews, United retirees recounted stories of job-hunting in their sixties and seventies, facing medical costs they no longer can afford, uprooting families to move to lower-cost communities, selling dream retirement homes and losing money they had counted on to support elderly parents.

The Pension Benefit Guarantee Corp. (PBGC), the federal insurance program that faces its own solvency crisis and is to take over the United pensions, ensures a maximum of \$45,000 a year in benefits for those who retired at 65, but considerably less for those who retired younger — much as Social Security pays less to early retirees. This particularly hurts pilots, whom the law requires to retire from major airlines at 60 and who now collect as much as \$125,000 a year in pensions, depending on length of service. The PBGC's maximum coverage for those who retire at 60 is \$28,000 — a cut of 50 to 75 percent for pilots. Saracini will receive even less because her husband was 51 when he was



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United Airlines pilot Victor J. Saracini was killed during the attacks on Sept. 11, 2001.

killed.

The PBGC limits cover full pensions for most United retirees, but those still working will have their pensions frozen, meaning they will accrue no more benefits and will have less money for retirement than they had counted on — in some cases, much less.

Dale Cassidy, a flight attendant for 32 years who lives in Arlington, wrote to Miller that she exhausted most of her savings putting her daughter through college and now will have to take in a boarder to be able to pay her mortgage and property taxes. Floyd Channell, 72, a retired United ramp worker at Dulles International Airport, said he worries how today's workers will fare in old age with even smaller pensions than his. Although PBGC

probably will protect his full benefit, he said he needs one-third of it just to pay medical costs — beyond what Medicare covers — for his wife, who has disabling back pain. He has taken a part-time job at a church, "but when you're 72, you can't get much," he said.

For pilots, the six-figure drop in pension benefits follows losses of tens and even hundreds of thousands of dollars in United stock they received in the 1990s in exchange for major pay and benefit concessions — and were required to hold until retirement, as the stock plummeted in value. Other employees lost stock as well, but had less to lose.

"I call it legalized crime," said United pilot Klaus Meyer, 47, of Bethlehem, Pa. "I lost almost all my United stock value in the bankruptcy, and here's another part of the retirement I was promised that is gone. And now my Social Security is at risk. Where does it all end? You feel brutalized by the system."

Meyer agreed to be interviewed despite warnings from the pilots' union that United may penalize employees who talk to reporters. "What are they going to do to me — cut my pension in half?" he said.

Retired pilots nationwide who spent their work lives expecting six-figure pensions told of scrambling to downsize as fast as possible. "The last thing I thought was that I would depend on Social Security as the cornerstone of my retirement," John J. Pinto, 60, of Annapolis, wrote to Miller. Pinto said he is job-hunting, and has found that he and his wife, a schoolteacher, probably will earn together less

In the late 1990s, United pilot Gerald Innella had \$500,000 in United stock and a promised \$110,000 pension for life. His children grown, he and his wife built a "dream home" on a golf course in Somerset County, N.J. His stock sold at \$10,000 in the bankruptcy, and his pension stands to drop almost \$80,000 a year. Innella, now 60, and his wife recently sold the dream home, moving in first with their son and now a niece. Interviewed at his niece's home in Glen Gardner, N.J., Innella was preparing for a pre-dawn flight to Antigua; he is back at work as a full-time charter pilot at one-third of his former salary.

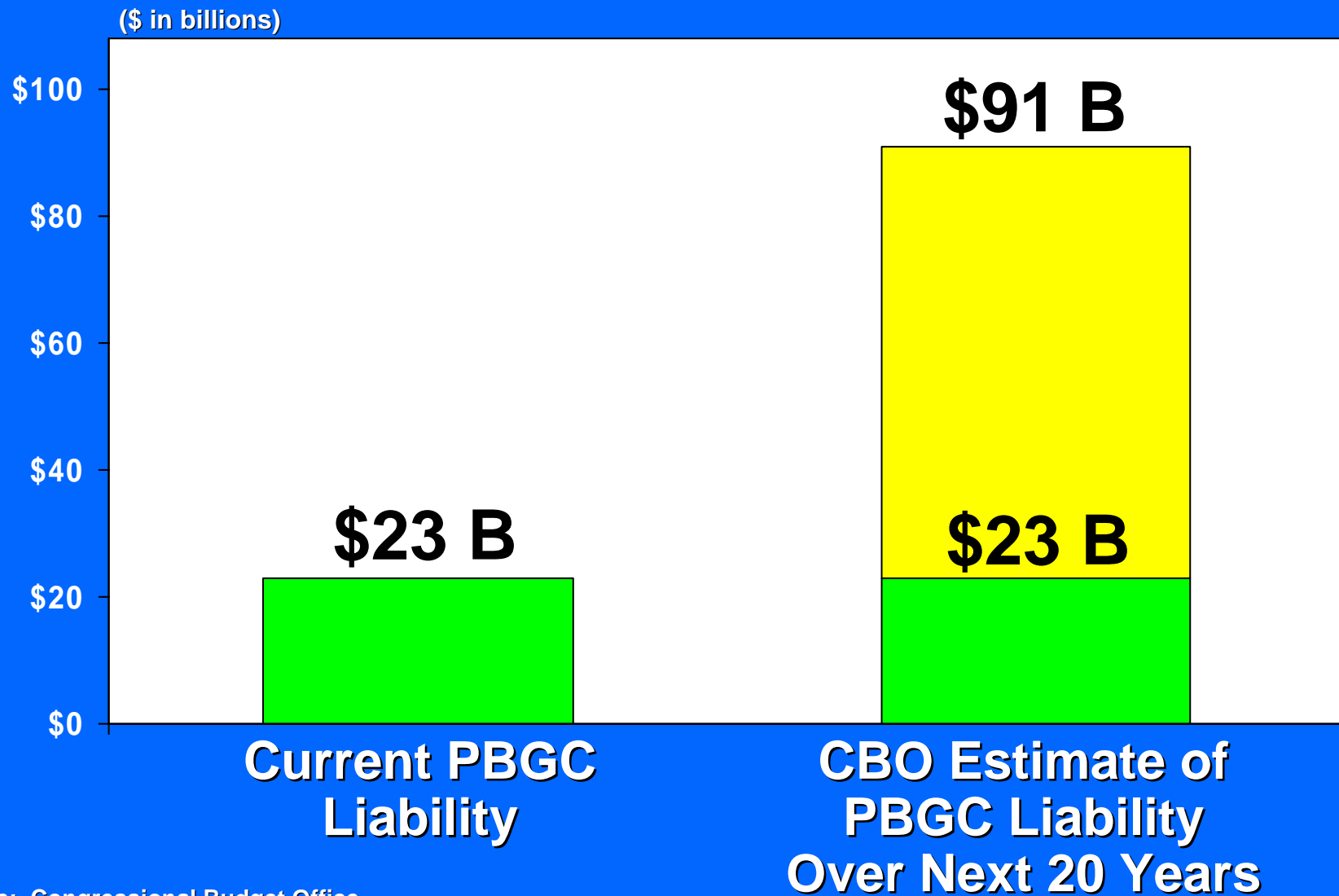
Last week, United Chief Executive Officer Glenn Tilton testified to the Senate Finance Committee about \$4.5 million he is receiving from United to replace benefits he had accrued over a 32-year career at Texaco, his previous employer. Tilton said that the default will not affect the payment, and that he has \$1.5 million left to collect. He said this does not represent a double standard because United promised him the money in his contract.

"He is saying, 'United guaranteed that to me,'" said retired pilot John D. Clark of Charlottesville, who flew United planes for 36 years out of Dulles and whose \$125,000 annual pension is to be reduced by more than 70 percent. "Why is the promise made to him understandable, and the one made to me can go by the wayside?"

Clark said he is more enraged at the injustice of the pension default than at his own situation. "The

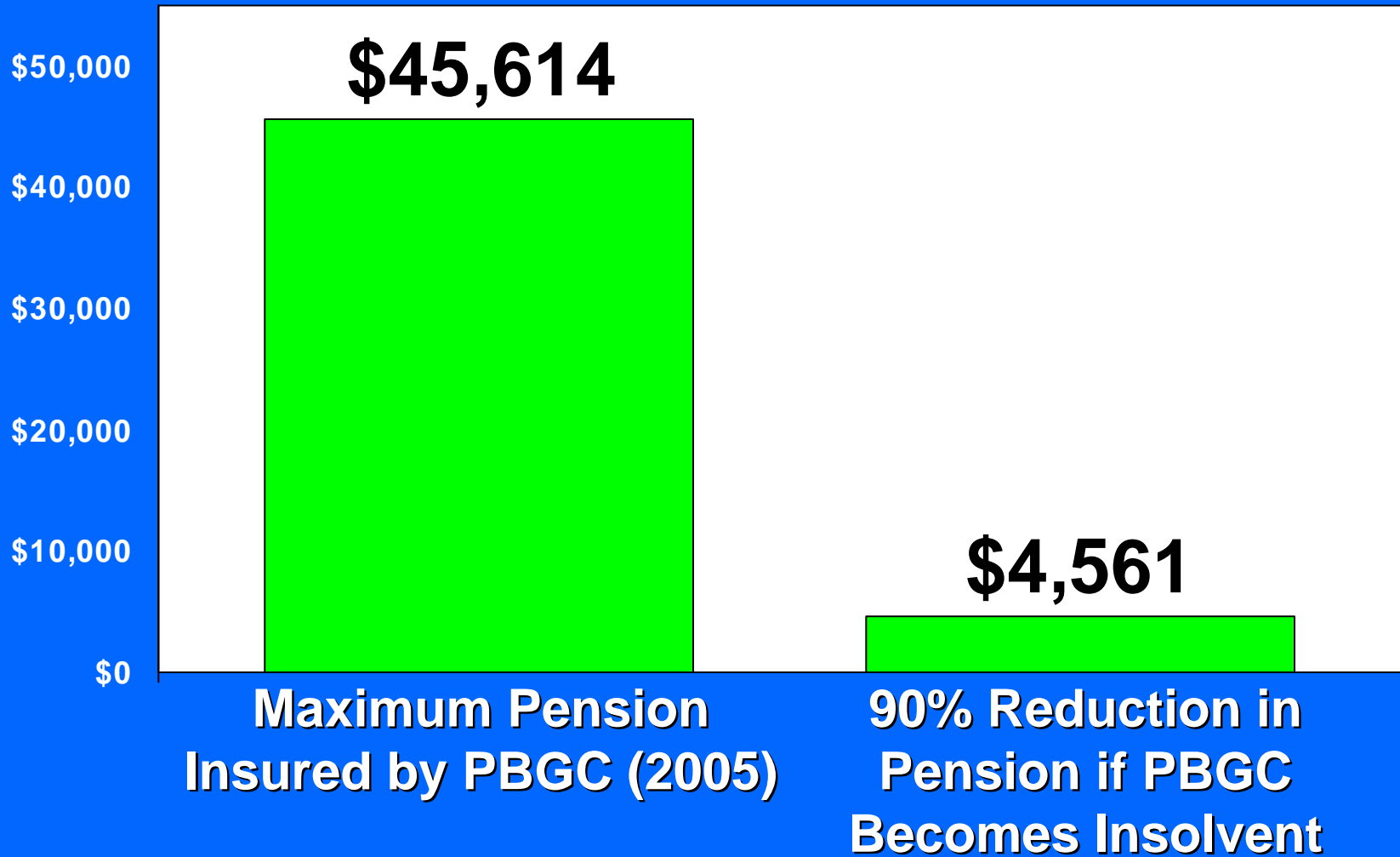
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# Pension Benefit Guaranty Corporation Faces Potential Liability of \$91 Billion by 2025



Source: Congressional Budget Office

# CBO Warns: Allowing PBGC to Become Insolvent May Reduce Pension Benefits in Excess of 90 Percent



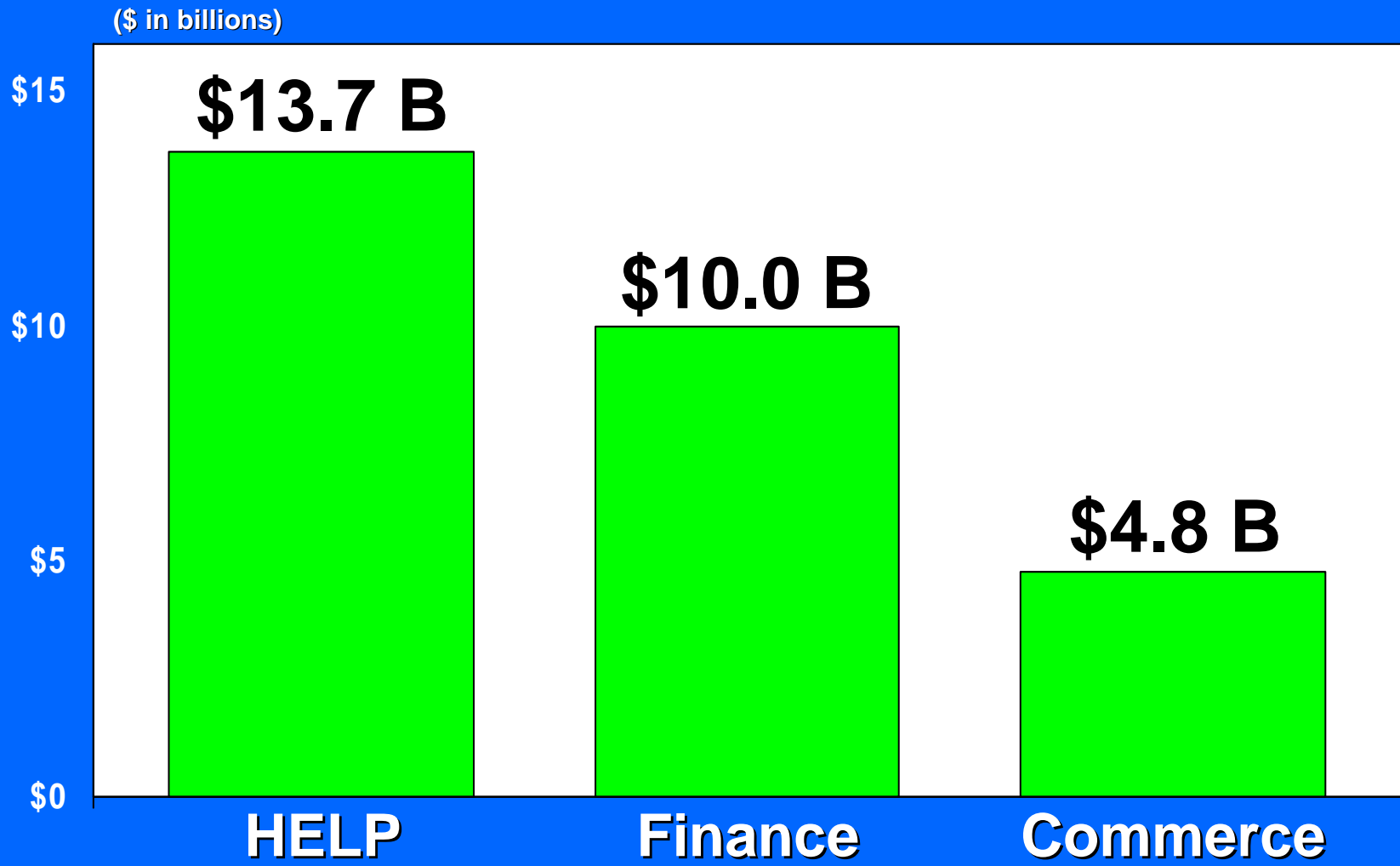
Source: PBGC, CBO, SBC Democratic Staff

# **CBO Director Holtz-Eakin Warns of Potential Risks to Firms and Beneficiaries in Reforming PBGC**

**“Changes in policy that require augmented pension funding would impose new costs on sponsors ... probably increasing the chances of further bankruptcy filings ....”**

**– Douglas Holtz-Eakin, CBO Director  
Before Senate Finance Committee  
June 7, 2005**

# HELP Committee Responsible for Almost 40% of Reconciled Savings



Source: 2006 GOP Budget Conference Report

# Administration's Pension Reform Proposal

- **Increase Premium Income**
  - Increase Fixed Premium from \$19 to \$30 Per Plan Participant
  - Apply Variable Premium to Every Dollar of Plan Underfunding
- **Reform Minimum Funding Levels**
- **Prevent Companies with Underfunded Plans from Increasing Pension Benefits**
- **Enhance Transparency of Pension Plans**