

United pilots win \$44 million union retirement suit

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(Dow Jones) The Air Line Pilots Association International, in a major financial setback, agreed to pay \$44 million to settle a lawsuit brought by a group of senior United Airlines pilots, according to an attorney for the pilots.

With the window for appeals passed, the settlement approved in December by a U.S. District Court judge in Chicago is final, said Myron Cherry, the lawyer. The United pilots objected to the way their local ALPA leadership council chose to split up a retirement payment in United's bankruptcy reorganization.

Cherry said ALPA is expected to make payment within weeks. After legal fees and expenses, the 2,200 plaintiffs in the class-action complaint brought more than three years ago are expected to receive a total of \$28 million.

A spokeswoman for ALPA, which represents 50,000 commercial airline pilots, declined to comment. The settlement potentially is a serious blow to the union, which already is facing reduced dues income amid airline failures, furloughs and lower pilot pay rates. Although ALPA has a large insurance policy, its deductible is believed to be multiple millions of dollars, said one person familiar with the matter. On the other hand, if the plaintiffs had persuaded a jury to award them their claimed damages of \$200 million, the union could have been bankrupted.

ALPA had \$100 million in net assets at the end of 2008, according to its most recent financial report filed with the Department of Labor. That was down from \$132.1 million at the beginning of 2008. ALPA took in total receipts, including dues income, of \$233.5 million that year, and it disbursed \$238.1 million.

Other airlines that sought protection from their creditors in recent years have terminated some of their employee pension plans without this sort of litigation. US Airways Group Inc. jettisoned all of its plans in two bankruptcy reorganizations. Delta Air Lines Inc., in bankruptcy, terminated its pilot pension plan. But it and Northwest Airlines Corp., which Delta acquired last year, successfully lobbied for changes in pension law so they could freeze but retain existing plans and amortize their underfunding over multiple years.

The crux of this dispute arose when United's Chicago-based parent UAL Corp. was in bankruptcy proceedings and said it couldn't afford to keep its four employee pension plans, which were underfunded by \$9.8 billion. The plans ultimately were assumed by the Pension Benefit Guaranty Corp., which now makes payments to United retirees.

United and its employees agreed to new 401(k)-type pension plans and the airline gave the workers convertible notes to help make up for shortfalls they would experience when the PBGC took over the pension payments. ALPA and United agreed that the pilots would receive \$550 million in convertible notes.

The local union branch that represents United's then-6,600 active pilots debated how to allocate the proceeds from the sale of the notes and ultimately voted to use a method that would reward all the pilots. The plaintiffs

contended that method provided a windfall to the airline's junior pilots, who were the majority and controlled the local union leadership, at the expense of the senior aviators.

The junior pilots lost little or none of the benefits they had earned under the terminated plan. But the 2,200 senior pilots, who already had accrued sizable benefits based on their higher incomes and longer years of service, had much money on the line. The suit claimed the union took more than \$200 million from the plaintiffs for benefits they already had earned in their pension plan and gave it to junior pilots for benefits they hadn't earned, a breach of ALPA's duty of fair representation.

The judge last July denied motions by ALPA and intervenor United for summary judgment in the case. Days before the dispute was set to go to a jury trial last October, ALPA agreed to settle, said Cherry, one of the plaintiffs' lawyers.

While United intervened in the case, it isn't on the hook for any money. "There are no claims against United," the company said in a statement.

John Mansfield Jr., a 27-year United pilot who retired in 2005, was the first named plaintiff in the lawsuit. He receives about \$27,000 a year in retirement benefits from the PBGC, he said. Because of a law--now changed--that pilots must retire at age 60, their PBGC payments were reduced from what they would have gotten if they retired at 65. Before United jettisoned the pilot plan, Mansfield said he had expected to retire on as much as \$80,000 a year.

He thinks his part of the \$28 million settlement will amount to about 12% to 13% of what he would have received in note proceeds had the union adopted what the senior pilots considered fair. He said that probably will be the case for the others in the class. Cherry, the attorney, said the payment formula will lead to varying results. A handful of the pilots will receive six-figure one-time payments. Many are in line for payments of \$25,000 to \$35,000 and some will receive much less, he said.

Mike Glawe, a former ALPA leader at United and still an active pilot, said the settlement "isn't going to reestablish anybody's retirement security." But he, another of the named plaintiffs, said it sends a message: "A political majority still has to fairly represent the interests of a political minority."

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