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Trade-offs can help save airline retirement funds

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For thousands of its employees and retirees, United Airlines and US Airways' ongoing bankruptcy proceedings are of critical importance. United's management has said it is ''likely'' the company will end its contributions to employee pension plans. US Airways has already missed pension payments.

Beyond airline employees, these developments should be of concern to every U.S. taxpayer. If the airlines default on their pension plans, they will be assumed by the Pension Benefit Guarantee Corporation, the quasi-governmental insurance plan for industries with defined-benefit pensions. That agency, which caps its pension payouts at about $44,000 per worker, is funded through contributions by the affected industries. But it is already operating at a $10 billion deficit, owing mostly to the offloading of pension plans by bankrupt steel companies. Wholesale pension defaults by any of the major airlines could double or triple the PBGC shortfall, requiring a massive taxpayer bailout.

Thus, the pending move by airlines to escape their pension obligations inevitably will lead to one of two very bad choices: thousands of employees and retirees denied the retirement benefits they were promised, or another taxpayer bailout on the order of the $175 billion savings-and-loan debacle.

There is a third way, which can avoid these failed alternatives. It involves both looking back to a successful experiment to protect employees in a distressed industry, and looking forward to promote good jobs with benefits that middle-class families depend on.

I propose establishing an Airline Employees Retirement Board, inspired by the Railroad Retirement Board that Congress created in the 1930s when that industry faced a similar challenge to its business model and financial stability. Such a board would administer a federally guaranteed airline pension system that delivers a stable and universal benefit. Both employers and employees would contribute to the cost of the plan. The federal government would back it up with unspent airline bailout funds authorized by Congress after the 9/11 tragedy.

Some will argue for letting the marketplace and the bankruptcy courts sort out the problem. But in the throes of its current financial challenges, the airline industry appears to be in a race to the bottom. Airlines that awarded meaningful pension benefits to their employees, often in exchange for lower wage agreements, are now attempting to emulate the profitable industry upstarts, which provide only nominal benefits. This abrogation of promised benefits is not only unfair to the employees who negotiated these benefits; it is bad for our nation's economy.

For many years, health and retirement benefits have defined a ''good job'' and enabled employees to achieve middle-class status. The wholesale abandonment of such benefits in an important industry like aviation represents the further Wal-Martization of our economy.

Moreover, this administration and congressional leaders have embraced policies that encourage employees to take more responsibility for their own retirements. Thousands of airline employees have followed this advice, negotiating strong pension plans -- often at the expense of wage increases. It is ironic that at the same time we are encouraging employees to save for their retirement, companies are pulling the rug out from under them. We can't in good conscience encourage employees to save for retirement, and then allow companies to abandon their pension plans as inconvenient to their new business models.

Under my plan for an Airline Employees Retirement Board, each airline would be required to participate to ensure a level playing field for each company and the financial stability of an essential industry. Every employee from pilots to flight attendants to machinists would automatically be enrolled in the system. All parties would have a vested interest in seeing the new system work well into the future. Both labor and management would have to give something to get something.

For employees with more than seven years of service, current defined benefit plans would be maintained. This will ensure that longer-term employees can obtain the pension benefits they've negotiated. It will have the added benefit of preventing constant negotiation between management and labor, thus propelling the industry toward greater stability.

In exchange for this commitment, the defined benefit plan would be rolled over to a defined contribution plan for workers with less than seven years employment. Employers would match an employee's contribution at 100 percent. Newer employees would receive the security of knowing their employers will be making regular contributions to their retirement plans.

There are trade-offs for all. Employees with less than seven years of service will see changes in their retirement plans while employees with more than seven years of service remain status quo. Employers will be given flexibility in meeting their pension payments and a less cumbersome retirement plan for newer workers. In return, they cannot walk away from employees' defined benefit plans. Taxpayers face a trade-off, too. They can become part of a long-term solution to the pension problem or they may face a bailout of historic proportions.

I offer this concept as a framework for discussion rather than an exact prescription. Details will need to be worked out through negotiations by the various parties. But at this critical juncture in the future of an essential American industry, my concept would allow airlines to restructure and compete without breaking faith with their workers or denying them basic benefits. Such an outcome will not be achieved by following the current path of bankruptcy proceedings and PBGC assumption of failed pensions. We should seize this opportunity to promote a new strategy that enables the airlines to do right by their workers without putting themselves at a competitive disadvantage.

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