BUSINESS INSURANCE.

American Airlines freezes its pension plans

Posted On: Nov. 1, 2012 12:00 AM CST

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ON THURSDAY AMERICAN AIRLINES INC. FROZE ITS FOUR UNDERFUNDED PENSION PLANS./ BLOOMBERG

American Airlines Inc. froze its four massively underfunded pension plans Thursday, an action that put to an end a long-running saga over the plans' future.

That saga began nearly a year ago when American's parent, Fort Worth, Texas-based AMR Corp., filed for Chapter 11 bankruptcy reorganization.

In January, American said it would seek bankruptcy court approval to terminate the plans, which have about 130,000 participants.

“American's pension plans are very expensive; we spend more on them than our competitors spend on their retirement plans. We simply do not see a way we can secure the company's future without terminating our defined benefit plans,” the airline said January in a statement.

The airline's intended action ran into strong resistance from the Pension Benefit Guaranty Corp., which would have had to pick up billions of dollars in benefits that the company promised to the plans' participants but did not fund.

“Before American takes such a drastic action as killing the pension plans of 130,000 employees and retirees, it needs to show there is no better alternative. Thus far, they have declined to provide even the most basic information to decide that,” PBGC Director Josh Gotbaum said at the time.

In the face of that pressure, American in March reversed course and said it intended to freeze the plans and would beef up 401(k) plan contributions.

Through that decision, the PBGC, which reported a record $26 billion deficit in fiscal 2011, was spared what would have been its biggest loss in its 38-year history. According to PBGC estimates, the four American Airlines plans have about $8.3 billion in assets and $18.5 billion in promised benefits.

If the plans that cover pilots, flight attendants, transport workers and other nonunion employees had folded, the PBGC would have been liable for about $17 billion in benefits, resulting in an $8.7 billion loss.

That would have eclipsed the previous PBGC record loss, $7.4 billion in its 2005 takeover of five United Airlines' pension plans.

The freezing of American's plans will have no impact on its retirees who will continue to receive promised benefits. However, active participants no longer will accrue benefits. Less than half of plan participants were accruing benefits, an American Airlines spokesman said. American, though, will make an automatic 401(k) plan contribution for pilots equal to 11% of their pay, and will match other employees' contributions, up to 5.5% of compensation.

The PBGC's Mr. Gotbaum described the freeze as a “mixed result” for American's pension plan participants. “Today marks a mixed result for the people of American Airlines. We of course are pleased that they will get to keep the pension benefits they have already earned, but it is unfortunate that going forward their retirement benefits will not provide the same level of security as a traditional pension,” he said in a statement Thursday.

American Airlines' pension freeze means that except for a pension plan covering non-pilot employees once sponsored by Continental Airlines — later acquired by UAL Corp. — all major airlines' pension plans have been frozen or taken over, at a cost of billions of dollars, by the PBGC.