THE WALL STREET JOURNAL. ONLINE

April 3, 2003

As Workers Face Pension Cuts, Executives Get Rescued

• Delta Moves to Secure Pensions of Executives[1]
03/26/03

By THEO FRANCIS and ELLEN E. SCHULTZ
Staff Reporters of THE WALL STREET JOURNAL

At a time when pension plans at many companies are increasingly in peril, employers have been taking steps to protect the jumbo pensions promised to top executives.

Delta Air Lines disclosed in filings last week that it had set up special retirement trusts last year to ensure pension payments to 33 of its executives in the face of severe turbulence for the industry. The disclosure angered Delta employees, who face pension cuts as the carrier seeks to lower its costs.

But the struggling airline isn't the only company that has taken steps to protect pensions for its top management at a time of economic uncertainty. A search of government filings reveals that many companies have made similar disclosures, mostly within the past year, including **Altria Group** Inc. (formerly Philip Morris), LTV Corp., **UAL** Corp., and **Abbott Laboratories**.

These aren't the types of executive trusts that came into the spotlight when Enron Corp. went over a cliff. Enron, like many companies, had set up "rabbi" trusts to fund deferred-compensation benefits for top executives. Such trusts are technically still company property, and therefore subject to the claims of creditors.

Rather, these less-well-known trusts set up by Delta and others involve arrangements by which the company actually turns the money over to the executives, or to special trusts set up in their names. Once paid out, the money is gone, unavailable to the company in the event of bankruptcy or insolvency.

The practice can be more expensive than simply paying the pensions when they come due. That is because many companies, including Delta and Abbott Labs, "gross up" the payment to make up for some or all of the additional taxes that executives incur by receiving their money early.

Delta defends the practice, saying it was a necessary technique to ensure that its management team stayed intact. "I don't think anyone should be surprised that talented executives at airlines are being retained by securing their retirement benefits," says Delta spokesman Tom Donahue.

He added that, ordinarily, the nature of supplemental pensions leaves executives vulnerable to losses that other workers don't face because executives' special pensions can be wiped out in bankruptcy, as they aren't protected by federal pension insurance. "That's in contrast to the majority of Delta employees, whose pensions are protected."

The federal government has long provided tax breaks for ordinary pension plans on the theory that society should help companies provide for their workers in retirement. Companies may provide special, supersized pensions and retirement plans to top executives, but to get the tax breaks, the benefits must be "at risk," meaning at the very least that executives stand to lose them if the employer goes under.

Instead, with these trust arrangements, executives have even more security than other employees.

Filings reveal that some companies set up these arrangements in advance of filing for bankruptcy-court protection from creditors, or when it is clear that rocky times are approaching. Delta, for example, decided to set up its arrangement soon after the Sept. 11, 2001, terrorist attacks decimated air travel, citing the need to keep valuable executives.

LTV Corp., the steel company, set up trusts in November 1999 to hold deferred-compensation and supplemental-pension payments. Then, in April 2001, a few months after the company's Dec. 29, 2000, bankruptcy-court filing, LTV signed a new employment agreement with one executive, promising to transfer assets from those trusts into one created in the executive's name; the new trust would make payments to the executive on a set schedule, assuming he stayed in the company's employ.

In March 2002, the Pension Benefit Guaranty Corp. assumed the pension plan for 82,000 LTV employees and retirees, many of whom are receiving only a portion of their pensions.

UAL Corp., parent of United Airlines, set up a similar trust arrangement when it hired Chairman and Chief Executive Glenn F. Tilton in September. Under his employment contract, UAL transferred $4.5 million into three trusts in Mr. Tilton's name to make up for retirement benefits he gave up in leaving his prior job at **ChevronTexaco** Corp.

In December, UAL filed for bankruptcy-court protection, a move that had been discussed publicly since August. Mr. Tilton only gets all of the assets if he stays three years or the company emerges from bankruptcy.

"The board of directors did not feel like he should be penalized for leaving ChevronTexaco to join United," United spokesman Jeff Green said.

Another spokesman said the arrangement was designed to protect Mr. Tilton in the event of bankruptcy. "Clearly any executive coming into that position at that time would feel the need to protect the assets that they have accrued over a 30-year career at another company," spokesman Rich Nelson said.

Companies have other ways of protecting executive pensions. For example, in August 2000, Conseco Inc. promised Chairman Gary C. Wendt, 60 years old, annual payments of $1.5 million a year starting at age 65. Technically, as with most executive pensions and retirement plans, Mr. Wendt stood to lose them if the company failed.

In December 2002, Conseco and some of its subsidiaries did file for bankruptcy protection. But the Carmel, Ind., financial-services company, whose financial troubles were long expected, had guaranteed the payment through a subsidiary that isn't in bankruptcy and therefore would be able to pay if Conseco itself is not.

Conseco didn't return calls seeking comment.

Write to Theo Francis at theo.francis@wsj.com[2] and Ellen E. Schultz at ellen.schultz@wsj.com[3]

URL for this article:
http://online.wsj.com/article/0,,SB104932903462607100,00.html

Hyperlinks in this Article:
(1) http://online.wsj.com/article/0,,SB104864014522926400,00.html
(2) mailto:theo.francis@wsj.com
(3) mailto:ellen.schultz@wsj.com

Updated April 3, 2003