STATEMENT OF

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UNITED AIRLINES

BEFORE

THE COMMITTEE ON FINANCE

UNITED STATES SENATE

WASHINGTON, DC

June 7, 2005

Preventing the Next Pension Collapse:
Lessons from the United Airlines Case

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Chairman, President and CEO of United Airlines
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Mr. Chairman, Senator Baucus, and distinguished members of the Finance Committee, thank you for inviting me to testify today.

The topic of today's hearing is, "Preventing the Next Pension Collapse: Lessons from the United Airlines Case." As the Chairman, President and CEO of United Airlines, I can tell you precisely what lessons we have learned, as we have dealt with this industry's business and financial realities.

As my colleagues on the panel have stated, while the nation's retirement system is facing a significant crisis, the airline industry is undergoing its own extraordinary transformation.

The Internet, price transparency and the impact of low cost carriers have permanently changed the industry, which has suffered staggering financial losses exceeding $32 billion over the last four years.

The major carriers have massive legacy costs. All the carriers are squeezed in a vise between lower yields and higher fuel costs. Not surprisingly, predictions that the U.S. airline industry would return to profitability have not come true.

Just three years ago, United was a flawed and a failing business... months away from bankruptcy. We had an uncompetitive cost structure; restrictive labor agreements; a lack of alignment between management, employees and customers; and a governance structure that fundamentally weakened United.

Since then, United has done most of the hard work necessary to put our financial house in order and to prepare to compete as a viable, sustainable enterprise.

- ✓ We are on track to realize reductions of $7 billion annually, through long-term labor cost savings and significant other cost reductions.
- ✓ We have better focused our products to meet the demands of the U.S. market, and reallocated our fleet to international markets where yields are higher.
- ✓ We are posting industry-competitive revenue performance.
- ✓ And we now have a normal governance structure.

During this time, our employees have set record operating performance results. That's counterintuitive for a company in restructuring, and that is to our employees' credit.

We have maintained our service for the flying public in our hub cities, and in the medium and small towns we serve from coast to coast, providing important commercial connectivity and critical access to global markets.

Throughout our restructuring, United has worked tirelessly to preserve our employees' defined benefit pension plans. We devoted 14 months to constructing a business plan to secure an Air Transportation Stabilization Board (ATSB) loan guarantee on terms that would have allowed United to keep its pension plans.

A year ago, the ATSB rejected United's final loan guarantee application for $1.1 billion, advising us instead to pursue exit financing with the financial and capital markets. When we did, it was very clear that, given continued pressures on revenue and record fuel prices, United could not meet the financial targets necessary to be finance-able without the termination of pension plans and further labor cuts.

Even so, we worked with our unions, actuarial experts, financial and legal advisors, Board of Directors, Creditors' Committee – in fact, all stakeholders – to scrutinize every alternative that would allow us to meet our financial targets and keep our pensions.

Last year, we told our labor groups and other constituents that we would examine any alternative to pension termination and replacement to see if it was viable. By January of this year, no workable alternatives were found. We extended the search for another four months, and despite everyone's efforts, we failed to find viable alternatives to termination and replacement.

When it became clear to the management team, the Board of Directors and the Creditors' Committee that the termination and replacement of our pension plans was the only viable option, we prepared to go to court. At the same time, we were in discussion with the Pension Benefit Guaranty Corporation (PBGC). It was decided that the best route at this time was an involuntary termination by the PBGC, whereby the PBGC obtained securities and a share in United's future potential.

The PBGC settlement is fair and equitable to all, provides cost savings and stability necessary for United to exit from bankruptcy and is superior to the recovery that the PBGC would receive as a creditor. But that does not change the fact that this has been extremely difficult for our employees and retirees and is not an outcome to be desired.

Since United began offering pension plans to its employees in 1941, we have done everything required by law – and more – to safeguard those plans for United's employees. And since the Employee Retirement Income Security Act's inception in 1974, we followed fully the rules and regulations and paid our PBGC premiums and plan contributions even while in bankruptcy, until the ATSB's final rejection of our loan guarantee application last summer.

From the outset of the bankruptcy process, our mission has been to enable United as a whole to succeed. Without success for the enterprise, the rest is academic.

To quote Bankruptcy Court Judge Wedoff on the United/PBGC agreement: "The least bad of the available choices here has got to be the one that keeps an airline functioning, that keeps employees being paid."

Without termination and replacement of pensions, United's future and the jobs of 62,000 employees would disappear, along with the economic contributions to hundreds of communities, our business relationships with hundreds of suppliers and partners, and United's continuing wage and benefit payments, including replacement retirement plans… and the pension plans would still be terminated.

United's unions understand the industry and economic realities that we are facing, and all but one have agreed to the retirement plan changes that must be made. We now have agreements on long-term labor cost savings with all our union groups, ratified or in principle, and with every union group but the Association of Flight Attendants on pension changes.

These agreements have moved United forward significantly in our restructuring and set the stage for our exit from bankruptcy.

The impact of this action on our retirees and employees will not be as dramatically negative as some have portrayed. All vested participants will continue to receive guaranteed benefit payments. In particular, most current retirees will not see dramatic reductions in their monthly benefits, and many retirees will not experience any reductions at all.

For example, retired flight attendants, the group that is by far the least impacted – represented or not – will receive approximately 100 percent of everything they are receiving today.

For current employees (except pilots), the impact of a termination could be substantially mitigated by working until age 65, the traditional retirement age in most pension plans.

The choice we faced for our employees was keeping jobs and replacing their existing pension plans with consensually negotiated replacement plans… or losing jobs and terminating pensions.

Unlike my colleagues on the panel today, United is in Chapter 11, seeking exit financing in order to keep our company in business for our employees, retirees and our customers. We know for certain that the cost of continuing our defined benefit pension plans was not finance-able …the cost is simply unsustainable.

Mr. Chairman, we at United agree with many of the policy issues that you and House Chairmen Thomas and Boehner have identified.

In particular, we support your commitment to taking a comprehensive approach to solving these problems. We have learned from United's restructuring that reform of the pension laws cannot succeed if it is done piecemeal. There is no "quick fix."

Pension reform must consider the daunting economic reality and volatility the airline industry and other U.S. industries are facing today. Short-term moratoriums are falsely based on the hope that "if you wait it out, things will get better."

A lesson we at United have certainly learned, is that there is no moratorium on business and financial reality.

Thank you and I would be happy to take any questions.

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