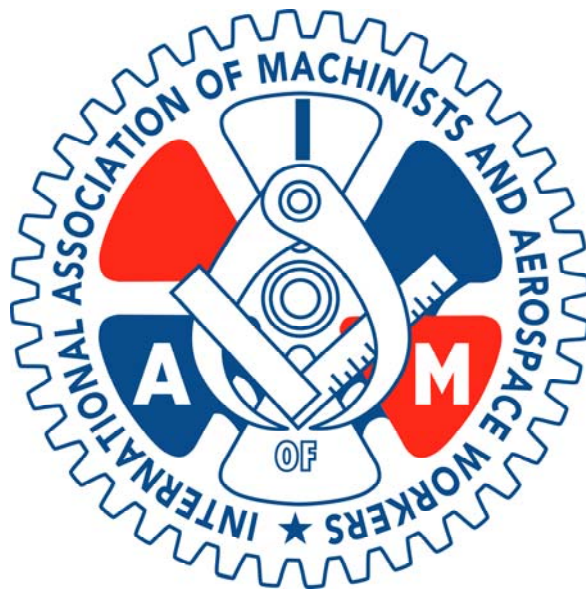


**Testimony of Robert Roach, Jr.  
General Vice President of Transportation  
International Association of Machinists  
and Aerospace Workers**



**Before The  
House Committee on the Judiciary  
Subcommittee on Commercial and Administrative Law  
“Protecting Employees in Airline Bankruptcies”  
December 16, 2009**

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Thank you, Chairman Conyers, Subcommittee Chairman Cohen, and members of this Committee for the opportunity to speak to you today. My name is Robert Roach, Jr., General Vice President of Transportation for the International Association of Machinists and Aerospace Workers (IAM). I am appearing at the request of International President R. Thomas Buffenbarger. The IAM is among the nation’s largest industrial trade unions, representing nearly 700,000 active and retired members under more than 5,000 contracts in transportation, aerospace, shipbuilding and defense-related industries, including more than 100,000 U.S. airline workers, making the IAM the largest airline union in North America.

I am speaking to you today as both a union representative with extensive bankruptcy experience and a retired airline employee who has personally felt the effects of airline bankruptcies.

I endured three airline bankruptcies as a TWA employee. My coworkers and I suffered repeated pay and benefit cuts. My pension and the pensions of 36,300 other participants were terminated in 2001. Today, after 30 years as a TWA employee, I receive a monthly pension from the Pension Benefit Guaranty Corporation (PBGC) of a

mere \$212.00. I know firsthand that bankruptcy is painful; but I also know the pain is not shared by all.

While Chapter 11 bankruptcy can be a lifeline for struggling companies, unfortunately the law allows management to use that line to choke employees and retirees. Under current bankruptcy law, if a company seeks to modify labor agreements and a union does not comply, the company can ask a judge to abrogate their contracts. This erases any incentive a company has to engage in good-faith bargaining. Recent court rulings also prevent airline employees from engaging in self-help if their contract is extinguished by the bankruptcy court. It is the equivalent of someone pointing a gun to your head, saying if you do not voluntarily turn over some of your money they will forcibly take it all, and there is nothing that can be done to stop them. Under this unfair corporate advantage, employees have suffered greatly. I have some examples.

Immediately after its Chapter 11 filing, United Airlines asked a bankruptcy judge to impose 14% “emergency” pay cuts on IAM members. The judge complied. More long-term cuts in pay and benefits cost IAM members \$460 million a year (or \$2.644 billion over the life of the agreement). United then took steps to cut health benefits for existing retirees and filed a motion in court to ask a judge to impose cuts if agreements could not be reached with the retirees' representatives. This heartless move cost fixed-income retirees \$50 million a year.

In the summer of 2004 United ceased funding its pension plans, the first in a series of steps which ultimately led to their termination by the PBGC.

In January 2005, United once again sought and received “emergency” pay cuts from the bankruptcy court - this time it was 11%. Six months later IAM members gave up another \$176 million a year to save United. Savings attributable to the termination of IAM member’s pensions saved United an additional \$217 million a year.

In total, IAM members were forced to sacrifice more than \$4.6 billion for United Airlines.

In US Airways’ first bankruptcy in 2002, IAM members agreed to two rounds of contract concessions totaling \$276 million per year, or \$1.8 billion over 6 1/2 years. Pay was cut by an average of 7.5%. Employees also experienced drastic increases in their contributions for healthcare coverage, which had the effect of reducing take-home pay even further.

Immediately after filing for bankruptcy for the second time in as many years, US Airways management petitioned the court to impose “emergency” pay cuts of 23% for all union-represented employees. The bankruptcy court reduced the amount to a still-staggering 21% cut in pay. Eventually, US Airways’ mechanics saw their pay cut by an average of 15%. Management and salaried employees' pay was reduced by only 5% to 10%.

Our Northwest Airlines members saw their pension plans frozen, and took 11.5% pay cuts as a result of management's bankruptcy. This story has been repeated throughout the airline industry.

And how did the executives who steered their airlines into bankruptcy fare in the process? They were rewarded for failure.

US Airways CEO David Siegel was rewarded with \$1.45 million the year his airline exited its first bankruptcy and another \$9 million in 2003, the year in between the airline's two bankruptcies. Siegel's successor, Bruce Lakefield, orchestrated massive pay, benefit and job cuts for front-line employees during the airline's second bankruptcy - but he refused to accept a wage cut for himself.

Northwest CEO Doug Steenland was granted \$26.6 million in stock upon the carrier's 2007 exit from bankruptcy, plus a cash salary that year of over \$500,000.

In 2006, on the day after emerging from the longest bankruptcy in airline history, United Airlines CEO Glenn Tilton was rewarded with \$20 million in stock and options. During the first month out of bankruptcy he was granted additional stock and options valued at \$18 million. Tilton also had a base salary of \$687,000 and bonuses totaling \$839,000 that year. Finally, he had \$210,000 of "other compensation" including a car & driver and reimbursement of taxes. Tilton's total compensation in the first year after United's

bankruptcy was \$39.7 million.

In these major airline bankruptcies, much of the financial sacrifices employees made to save their company were diverted into the pockets of the people responsible for the company's failure. That is not acceptable to me or the people I represent, and I hope it is not acceptable to the members of this Committee.

While airline employees have been hard-hit by the impacts of bankruptcy, they are certainly not alone. Auto, steel, banking, newspaper, cable television, and trucking companies are among the more than 100 publicly-traded companies that seek Chapter 11 bankruptcy protection each year. Bankruptcies are not restricted to just one sector of our country, and neither should bankruptcy reform. That is why the Machinists Union believes there is an immediate need for bankruptcy reform that should apply to all private sector workers covered by collective bargaining agreements.

Bankruptcy law should be amended to ensure employers engage in good-faith bargaining when seeking contract modifications. Companies should no longer be able to use the bankruptcy code to eliminate decades of collective bargaining gains when there is no justifiable reason other than corporate greed. Additionally, recent court rulings should be overturned to allow airline workers the right to engage in self help if the bankruptcy court terminates their collective bargaining agreement. Good-faith bargaining can only be achieved when there is a level playing field, and today bankrupt

companies hold all the cards. The right to self-help ensures that the bargaining parties understand the consequences of failing to reach a negotiated agreement.

If employees are called upon to sacrifice in order to resurrect their bankrupt employer, bankruptcy law must require that everyone from the break room to the board room shares the pain. Executive bonuses, stock grants, and other compensation enhancements proposed during a bankruptcy must be strictly limited. Bonuses paid to executives after emerging from bankruptcy must be reviewed by the court and take into account the amount of pain inflicted upon employees during and following bankruptcy. Employees cannot be asked to sacrifice wages, pensions, healthcare and jobs in order to line the pockets of the same people who bankrupted the company in the first place.

The IAM believes companies should be required to pay into pension funds as benefits are earned. An employee accepts lower immediate wages based on an employers' promise of a pension. Employers should not be allowed to abuse bankruptcy laws to break the pension promises workers count on to live in retirement with dignity.

Additionally, the PBGC should have the financial resources available to guarantee all of the vested benefits promised in a pension plan without reduction or maximums.

The pension troubles in the airline and steel industries were caused by employers taking advantage of loose pension funding requirements and using equity in pension plans to defer actual cash contribution on behalf of employees. When the stock market tanked, so did the pension plans. Pension defaults in the steel, airline and other industries

helped the PBGC move from a surplus of \$7.7 billion at the end of fiscal year 2001 to a deficit of \$33.5 billion today.

Currently, the PBGC has no power in bankruptcy to force companies to make required pension contributions. A company can simply refuse to pay and force the PBGC to initiate a pension termination to prevent a plan from accruing further pension liabilities. Congress must make bankruptcy a less attractive mechanism to dump pension obligations on the PBGC. The PBGC needs to have the ability to enforce pension funding rules on a level basis – whether or not a plan sponsor is in bankruptcy.

The Machinists Union supports comprehensive bankruptcy reform that will protect all our nation's workers and require shared sacrifice among all stakeholders. We are prepared to work with this committee on such legislation.

I look forward to your questions.