

Delta's Retention Program Fails To Stop Some Executive Departures

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ATLANTA -- A special bankruptcy-proof pension program that [Delta Air Lines](#) established to retain its top executives during the airline industry's worst financial crisis hasn't kept some from leaving the company -- and taking their pensions with them.

Already, three of the 35 employees in the retention plan have left, taking along the initial chunk of their special pensions. And under the trust rules, nothing keeps the remaining executives in the plan from leaving the company, with full rights to their trusts, when they are fully funded early next year. In all, the trusts are expected to cost Delta, which is currently seeking concessions from its pilots, about \$65 million by early next year.

While top executives -- including Chairman and Chief Executive Leo Mullin -- have received the bulk of the trust payments, company documents show that a number of less-senior employees also have received substantial payments under the plan, including the head of Delta's credit union and several company attorneys. Delta's employee pension obligations are underfunded by about \$4.9 billion.

Delta isn't alone in looking after what it considers key people. Many large companies have been beefing up special pensions for top executives, even as they cut pensions for the rest of their workers, drawing the wrath of rank-and-file employees. A similar uproar at [AMR Corp.](#)'s American Airlines cost its chief executive, Donald Carty, his job last spring. AMR offered special retention bonuses to six executives and funded supplemental pension benefits for a larger number of senior executives. It then delayed disclosing those perks until employees had voted on hefty voluntary pay cuts.

The controversy over Delta's special pension trusts comes as the airline is seeking help from the government and is weighing on Delta's negotiations with its pilots' union over cuts in pay. Those talks hit a stalemate in recent weeks when the union said it wanted the airline to agree to certain stipulations before resuming talks, including later rewards for making concessions. Union officials say their job of selling concessions to rank-and-file members is complicated by bitterness over the pension issue.

William Buergey, chairman of the leadership council of the Air Line Pilots Association at Delta, said union leaders recognize the need to help rescue Delta, but that any agreement they make with the company will have to be approved by the pilots, many of whom are angry over the issue of the pensions and management compensation.

Delta officials say the 35 employees benefiting from the special trusts were chosen on the basis of salary and years of service, not job title. None of the three officials who have left has gone to a competitor, which was a major aim of the program. Thomas Slocum, Delta's vice president of corporate communications, said more relevant than three people

leaving the company "is that the vast majority of Delta executives have remained and are continuing to work to strengthen Delta during this financial crisis."

Delta established its trusts last year, but their existence didn't become public until it made filings with the Securities and Exchange Commission this spring. It has declined to disclose who had been chosen to benefit, arguing that it is a private matter. The company explained that after the Sept. 11, 2001, terrorist attacks it needed to secure its management team in order to "weather the storm." By setting up trusts in the names of the selected airline employees, then funding the trusts with enough cash to guarantee the employees' retirement benefits, Delta says it hoped to protect them from any financial troubles the airline encountered, including the possibility -- however remote -- of bankruptcy. Frederick Reid, Delta's president, said in a recent interview that "leadership has played a role in making Delta's prospects pretty good" compared with other carriers.

The Delta documents list the 33 people enrolled in the trust program when it started last year. Although two more have been added since, the early list shows that the program went beyond top executives. The documents detail \$25.6 million in trust payments made in 2002, including payments the company made to cover tax liabilities for the employees. The top five executives accounted for \$14 million of that. At the top of the list was Mr. Mullin, who received an \$8.2 million trust payment, including the company's payment to cover his taxes.

Also included are General Counsel Robert Harkey, who received a \$2.4 million trust payment, and seven attorneys under him. Eight company attorneys received a total of \$4.2 million in trust payments. Mr. Harkey recently said he would retire at the end of the year. Two other trust beneficiaries, John Boatright, a vice president of corporate real estate, who received a \$363,000 trust payment, and Michael Young, vice president of community relations, who received a \$111,000 payment, already have left.

Mr. Boatright didn't return a message left with his secretary at his new job at the Atlanta airport. Delta said Mr. Harkey wouldn't comment. Mr. Young said he left in June to open a consulting company for not-for-profit organizations, and thought the trusts were "a very important program" for retaining Delta's top talent.

In some cases, lower-level managers received trust payments but their senior level bosses were skipped, according to a company document. Delta's Mr. Slocum said the company used a straight formula and some employees didn't make the cut under that formula.

William Williams, president and chief executive of the Delta Employees Credit Union, received a \$251,000 payment to a pension trust in his name, according to a company document. Mr. Slocum said all credit-union employees, including Mr. Williams, are Delta employees. Mr. Williams has been an employee for 35 years, the company said.

Mr. Slocum, who is among those receiving trust payments, said it is important to note that the payments represent a part of the employees' regular Delta pensions. "These are not extra payments, this is money that was earned," he said. "This is just a different way

to access the funds." Delta officials routinely listen to concerns from employees about the program, he said. "We're certainly aware of the concerns, and we've listened to them carefully."

Under the trust arrangement for those still employed by Delta on Jan. 1, the trusts will pay their assets out in a lump sum when the recipient leaves Delta or turns 52, whichever is later. But they can get their hands on the money sooner if they want: Within 10 days after each contribution from the company, the trust-owner can ask to receive some or all of the cash within three days.

AMR's trust program and retention package also hasn't kept the entire team together. The company says nine of the 45 participants have left, including Mr. Carty.

The friction at Delta over its executives pension trusts comes as the nation's third biggest carrier, behind American and UAL Corp.'s United Airlines, is seeking ways to cut costs everywhere it can. The company had a net loss of \$1.3 billion last year, and expects to lose between \$200 million and \$250 million in the current quarter.

United and American, also saddled with losses, have won substantial pay cuts from their employees. Delta has asked its pilots for a 26.5% pay cut and cancellation of a 4.5% raise next year, plus a later round of talks on work rules changes to raise productivity. The pilots union, which represents over 9,000 Delta pilots, has offered to take less-drastic wage cuts.

--Ellen E. Schultz contributed to this article.

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Getting their Wings

A trust arrangement that Delta said was designed to protect the pensions of top executives also benefited some who have already left the company. The initial 33 recipients and the approximate payments to their trusts in 2002 only:

(These amounts below are 60% of total trust amounts. Multiply by 1.66 for total payment. Trusts are paid in a lump sum, thereby guaranteeing the full amount of the non-qualified pension benefit. Monthly non-qualified pension benefit payments to retirees are usually ended when a company goes bankrupt. The qualified portion of their pensions will be paid in the normal manner of a monthly payment. – The table below has been re-formatted for easier reading. DP3)

Name	Title	Pension Trust Payment	Net Payment After Taxes
William E. Barnett	President, ASA Holdings Inc.	\$815,974	\$447,648
R. Michael Bell	Vice president, schedule development	\$217,651	\$117,074
Harold L. Bevis Jr.	Vice president, public affairs	\$340,236	\$184,798
John W. Boatright	Vice president, real estate	\$363,411	\$197,544
Walter A. Brill	VP, associate general counsel	\$462,768	\$253,174
M. Michele Burns	Exec. VP & CFO	\$790,529	\$435,660
Frederick W.P. Buttrell	Pres and CEO, Delta Connection	\$93,361	\$50,450
Vincent Caminiti	Sr. VP, profitability initiatives	\$545,999	\$300,610
Anthony N. Charaf	Sr. VP, Delta Air Logistics	\$104,761	\$55,505
Robert Colman	Exec. VP, HR	\$2,100,000	\$1,100,000
Terry M. Erskine	VP, labor relations	\$1,300,000	\$732,269
Vicki Escarra	Exec. VP, marketing	\$1,600,000	\$884,262
Robert Harkey	Sr. VP, general counsel	\$2,500,000	\$1,400,000
Michael D. Keen	General Attorney II	\$125,166	\$88,446
Leslie P. Klemperer	VP, assoc. gen. counsel, secretary	\$298,195	\$162,280
Joseph Licitra	VP, airport customer service east	\$100,640	\$52,162
Lee A. Macenczak Sr.	VP, sales and distribution	\$200,825	\$108,640
Paul Matsen	Sr. VP, Intl alliances	\$182,853	\$99,420
Patrice Miles	VP, consumer marketing	\$114,829	\$60,602
Leo Mullin	Chairman & chief executive	\$8,200,000	\$4,500,000
Leon A. Piper	VP, worldwide benefits	\$478,679	\$261,823
Frederick Reid	President & COO	\$1,500,000	\$844,547
Gregory Riggs	VP - deputy general counsel	\$544,614	\$298,501
Thomas Slocum	Sr. VP, corporate communications	\$292,733	\$159,728
James B. Taylor	Delta Benefit Trust	\$332,425	\$181,061
Ray Valeika	Sr. VP, technical operations	\$390,538	\$214,406
John Varley	Assoc. General Counsel	\$143,086	\$76,240
William J. Williams	Pres and CEO, Delta Emp Credit	\$251,547	\$136,657
Lemuel Wimbish Jr.	VP, airport customer serv Worldport	\$95,545	\$50,267
Donald Scott Yohe	Sr. VP, government affairs	\$791,780	\$435,548
Michael M. Young	VP, community affairs	\$111,642	\$58,100
W. Paul Zampol	General Attorney	\$70,666	\$35,943
Joseph Zang	General Attorney	\$94,253	\$49,004

September 28, 2004 - Names in red have left or announced their intention to leave