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# Truth Revealed:

**AMFA Played Big Role in Outsourcing Jobs and Killing your Pension**



Prepared by the Legal Department and Strategic Research Department of the International Brotherhood of Teamsters

## **Summary**

AMFA has been talking tough in recent months about protecting its members from airline mergers and opposing foreign outsourcing of aircraft maintenance. But AMFA has played a role in the foreign outsourcing of its members' work. A review of AMFA's actions during the UAL bankruptcy proceedings reveals that their tough talk is only empty posturing.

As explained in the attached report, AMFA began concessionary bargaining with UAL in November 2004, and quickly accepted as accurate the economic and labor cost projections that UAL sought from its labor unions. AMFA then pushed UAL to meet its labor cost savings in significant part through the foreign outsourcing of aircraft maintenance work.

By December 2004, AMFA not only agreed to the foreign outsourcing of heavy maintenance on all 747s and 777s, but also proposed expanding this maintenance outsourcing to include UAL's fleet of narrow body aircraft. Despite UAL's rejection of this proposal, AMFA continued to push for the foreign outsourcing of maintenance on narrow body aircraft throughout the month of December and into 2005.

At the same time that it was eagerly pushing to expand foreign outsourcing, AMFA also developed a proposal to replace the mechanics' defined benefit Ground Plan with a defined contribution plan. AMFA even stated their support of continuing the Ground Plan. But in December 2004, AMFA proposed the defined contribution plan to UAL and even offered not to oppose the termination of the Ground Plan. AMFA loudly signaled to UAL that it would not stand in UAL's way to eliminate the mechanics' defined benefit pension plan.

UAL got AMFA's message loud and clear. In April 2006, when UAL moved to terminate the Ground Plan, AMFA did not join with other UAL unions in resisting the pension terminations, but instead merely voiced weak opposition to the date of the termination. This objection was dismissed by the Court on May 11, 2005, when it approved UAL's agreement with the Pension Benefit Guaranty Corporation to terminate all of its pensions.

The attached report shows that, rather than protecting U.S. jobs and worker pensions, AMFA actually sought to send critical maintenance work overseas and accepted without complaint the loss of defined benefit retirement benefits for thousands of hard-working UAL mechanics.

## MEMORANDUM

### AMFA PLAYED A STARRING ROLE IN UNITED AIRLINES' OFFSHORE MAINTENANCE OUTSOURCING AND PENSION PLAN TERMINATION

#### AMFA Pushed for Foreign Outsourcing

During the United Airlines bankruptcy proceedings, UAL twice sought and twice obtained wage and benefit concessions from its unionized workforce. AMFA represented UAL mechanics during the second round of concessionary bargaining in late 2004 to 2005.

On August 11, 2004, UAL and AMFA representatives met at UAL headquarters and UAL provided AMFA with an update of its financial situation and operational performance. UAL sent AMFA a further update of its financial status on October 6, 2006. According to AMFA, "[b]ased on these and other sources of information, AMFA concluded that the Company did appear to be in need of additional operational savings."<sup>1</sup>

In November 2004, AMFA and UAL commenced concessionary bargaining.<sup>2</sup> According to AMFA Administrator Kevin McCormick, AMFA accepted as accurate the significant economic components (including, for instance, overtime factors and fringe benefit calculations) used by UAL's labor cost projection/model for purposes of obtaining concessions from each of the affected labor unions.<sup>3</sup>

Also in November 2004, AMFA retained Strand Associates, Inc. (Strand), an airline industry consulting group that claims an expertise in maintenance and MRO operations. Strand was tasked with "reviewing United's Labor Model as it pertained to the Company's costing of its outsourcing of aircraft heavy maintenance vendors located overseas."<sup>4</sup>

AMFA also "tasked Strand with reviewing United's overall business plan as it pertained to the Company's maintenance operation. The purpose of this...was to ascertain whether there were sources of maintenance related savings that could be realized and used to offset all or a portion of the cost savings being sought by the Company through modifications to the Agreement."<sup>5</sup>

On November 30, 2004, based upon Strand's evaluation of the company's maintenance operations, AMFA advised UAL that it believed UAL could achieve all or some of the labor savings demanded of the Mechanics' group by outsourcing its maintenance operations or, as AMFA characterized it, through "modifications to the manner in which the Company conducts its maintenance operations."<sup>6</sup>

By December 7, 2004, AMFA had already agreed to accept UAL's proposals to cut the Mechanics' base wages and holidays. It also agreed to let UAL outsource the fuelers' work overseas, as well as heavy maintenance of the Company's 747s and 777s (instead of domestically). Yet AMFA did not stop there. Instead, despite the fact that UAL had not proposed it, AMFA asked the Company to consider outsourcing its narrow body aircraft maintenance to overseas vendors as well as modifying the parties' grievance procedure.<sup>7</sup>

On December 9, 2004, UAL rejected AMFA's proposal on overseas outsourcing of narrow body aircraft as valueless. UAL also rejected AMFA's proposal to modify the grievance procedure.<sup>8</sup>

On December 15, 2004 AMFA presented a proposal to UAL which included the same items from its December 7, 2004 proposal, and included backup information prepared by Strand Associates to support its outsourcing proposals.<sup>9</sup>

Throughout December 2004 and in 2005, AMFA continued to push UAL to outsource its narrow body maintenance overseas even after UAL rejected the idea.<sup>10</sup> On December 30, 2004, based on additional work by Strand Associates, AMFA "eliminated the cost savings assigned to overseas outsourcing of narrow body aircraft from its December 30, 2004 proposal, thereby limiting the waiver to the prohibition of offshore outsourcing of heavy maintenance to the 747/777 aircraft."<sup>11</sup> Nevertheless, AMFA continued to insist "that the parties agree to meet within 6 months following exit from bankruptcy to review offshore outsourcing of the narrow body fleet, with any savings identified from such a review to be credited to AMFA employees as a proportionate increase in wages."<sup>12</sup>

### **AMFA Failed to Stand up for Mechanics' Pensions**

According to AMFA, as of December 15, 2004, its position was that UAL should continue to maintain its defined benefit pension plans.<sup>13</sup> Notwithstanding its stated position regarding the maintenance of UAL's defined benefit pension plan, however, by December 15, AMFA had commissioned a nationally-known actuarial firm to cost out a new, defined contribution pension plan to replace the Mechanics' defined benefit pension plan. Specifically, AMFA had retained Stephen White of Milliman, Inc., Consultants and Actuaries.<sup>14</sup>

As Mr. White stated in a January 3, 2005 affidavit, "[o]ver the last several months my staff and I have reviewed actuarial and financial analyses prepared by UAL that calculate and quantify the alleged cost savings that may be achieved by terminating United's defined benefit pension plans and replacing those plans with United's proposed defined contribution plans."<sup>15</sup> Mr. White and his colleagues from Milliman prepared a proposal for AMFA providing for the replacement of UAL's defined benefit pension plan with a defined contribution plan. AMFA accepted the Milliman defined contribution plan and formally proposed it to UAL on December 15, 2004.<sup>16</sup> As set forth therein, the proposed defined contribution plan provided, on average, a "replacement ratio in most age groups" of "roughly 75%."<sup>17</sup>

Thus, despite its stated "policy" of requiring UAL to maintain its defined benefit pension plan, AMFA loudly and expressly signaled its willingness to terminate that plan and replace it with a defined contribution plan by itself presenting its own pension plan replacement proposal on December 15, 2004.<sup>18</sup> Indeed, later that month, in December, 2004, AMFA proposed to UAL that "AMFA will not contest termination of DB Plan provided UAL accepts AMFA pension replacement plan proposal."<sup>19</sup>

AMFA and UAL reached an agreement for concessions on January 9, 2005.<sup>20</sup> The membership, however, rejected that agreement later in January.<sup>21</sup> As a result, AMFA directed Mr. McCormick to develop a proposal that allowed UAL to terminate the Mechanics' defined benefit pension Ground Plan and partially "replace" it with a defined contribution plan.<sup>22</sup> Thus after the membership rejected the first concessionary contract that it had presented them with in early January, 2005, AMFA again signaled – and indeed, proposed – to UAL that it would agree to let UAL terminate the Mechanics' Ground Plan.

Late in April 2006, UAL effectively side-stepped negotiations with AMFA and entered into an agreement with the PBGC whereby the PBGC took control of and terminated UAL's defined benefit pension plans, including the mechanics' Ground Plan.<sup>23</sup>

AMFA did not object to the agreement allowing for the termination of the Ground Plan. Although other labor organizations representing UAL's employees did indeed object to this maneuver by UAL and the PBGC, AMFA only objected to the proposed termination date of the Ground Plan.<sup>24</sup>

The Bankruptcy Court approved the agreement between UAL and the PBGC in an Order dated May 11, 2005,<sup>25</sup> in which it also summarily dismissed AMFA's objections.<sup>26</sup> Accordingly, UAL and the PBGC succeeded in terminating the Mechanics' defined benefit pensions with only the slightest of whimpers from AMFA.

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<sup>1</sup> Docket No. 9,650, "Aircraft Mechanics Fraternal Organization's Memorandum In Opposition to Debtors' Motion To Reject Their Collective Bargaining Agreements, (January 5, 2005), pg. 11; see also, Id., Exh. 2, Declaration of Kevin McCormick, ¶ 4.

<sup>2</sup> Docket No. 9,650, supra, at pg. 11; see also, Id., Exh. 2, Declaration of Kevin McCormick, ¶3.

<sup>3</sup> Docket No. 9,650, supra, at p. 12 ("AMFA's review of United's model resulted in AMFA accepting United's assumptions for overtime percentages, overtime factors, variable fringe percentages, and fixed fringe percentages. AMFA also agreed to use United's headcount numbers after pre-1113 initiatives were applied."); Id., Exh.2, Declaration of Kevin McCormick, ¶ 6 (same).

<sup>4</sup> Docket No. 9,650, supra, at pg. 13; see also, Id., Exh. 2, Declaration of Kevin McCormick, ¶ 8; Id., Exh. 3, Declaration of Kenneth Burgess, Vice-President, Strand Associates, ¶2 ; ¶, 4.

<sup>5</sup> Docket No. 9,650, supra, at pg.. 13; see also, Id., Exh. 2, Declaration of Kevin McCormick, ¶ 8.

<sup>6</sup> Docket No. 9,650, supra, at pg. 13; see also, Id., Exh. 2, Declaration of Kevin McCormick, ¶ 11; Id., Exh. 3, Declaration of Kenneth Burgess ¶ 9 ("In my opinion the Debtors could save \$14 million to \$30 million more than the \$72 million that the Debtors believe that they can save through offshore outsourcing of B747 and B777 HMs. **The Debtors could also save an additional \$92 - \$97 million in the future through offshore outsourcing of the A320, B737, B757, and B767 HMs.**"). [Emphasis supplied].

<sup>7</sup> Docket No. 9,650, supra, at pg. 15 ("When the parties reconvened on December 7, AMFA presented its economic response to United's term sheet (See McCormick Decl. ¶ 15). AMFA indicated that it was willing to meet the Company's immediate needs, based on the Company's stated rationale of lower revenue combined with higher prices. However, recognizing that the revenue and fuel problems could be alleviated just as quickly as they had arisen since the 2003 Section 1113 modifications, AMFA proposed that the duration of the modifications be two years. Within that context, AMFA was willing to accept the Company's proposals with respect to base wage reduction, the reduction in the number of holidays, the outsourcing of fuelers' work (assuming AMFA would receive credit for the outsourcing of all work), **and the elimination of restrictions on outsourcing of heavy maintenance to overseas vendors on the Company's 747 and 777 aircraft. With regard to the latter, AMFA further proposed that the parties agree to include any cost saving from overseas outsourcing of heavy maintenance on all of the Company's aircraft.** AMFA also proposed to make modifications to the grievance procedure that would save the Company in excess of \$1 million..) [Emphasis supplied]; see also, Id., Exh. 2, Declaration of Kevin McCormick, ¶ 15 (same; Id., Exh. 2-B, AMFA Response to UAL Term Sheet, dated 12/7/2004 ("Offshore outsourcing of HMs 777/747 only; Increase scope to all fleet types; Grievance Procedure: eliminate second step").

<sup>8</sup> Docket No. 9,650, supra, at pg. 16; Id., Exh. 2, Declaration of Kevin McCormick, ¶ 16.

<sup>9</sup> Docket No. 9,650, supra, at pg. 16; Id., Exh. 2., Declaration of Kevin McCormick, ¶ 16.

<sup>10</sup> Docket No. 9,650, supra, at pp. 18-22.

<sup>11</sup> Docket No. 9,650, supra, at pg. 21

<sup>12</sup> Docket No. 9,650, supra, at pp 21-22; Id., Exh. 2, Declaration of Kevin McCormick, ¶ 31; Id., at Attachment 2-H, "AMFA Response to UAL Term Sheet, 12/20/2004" ("**Parties agree to meet within 6 months after exit of bankruptcy and**

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review offshore outsourcing of the narrow body fleet and any savings identified and agreed to will be credited to AMFA as a proportionate increase in base wages.”[Emphasis supplied].

<sup>13</sup> See Docket No. 9,650, supra, at pg. 6; see also, Id., Exh. 1, Declaration of Malik Miah, ¶ 18(iii) (“It is AMFA’s position that the current defined benefit pension plan should continue in force. However, if this plan must be terminated, AMFA requires a replacement plan that provides the maximum replacement of benefits as allowed by the PBGC and takes into account the age and length of service of our members.”).

<sup>14</sup> Docket No. 9,650, supra, at pg. 6.

<sup>15</sup> Docket No. 9,650, supra, Exh. 4, “Declaration of Stephan A White, F.S.A.”, ¶ 5.

<sup>16</sup> Docket No. 9,650, supra, Exh. 4, Declaration of Stephan A. White, F.S.A., Exh. A.

<sup>17</sup> Docket No. 9,650, supra, Exh. 4, Declaration of Stephan A. White, F.S.A. ¶¶ 6-7.

<sup>18</sup> Docket No. 9,650, supra, at pg. 16; Id., Exh 4, Declaration of Stephan A. White, Attachment 4-A; Id., Exh. 2, Declaration of Kevin McCormick, Attachment 2-D, pg. 3, “AMFA Pension Plan Proposal 12/15/2004.”

<sup>19</sup> Docket No. 9, 650, supra, Exh. 2, Declaration of Kevin McCormick, Attachment 2-H.

<sup>20</sup> Docket No. 9,915, “Memorandum in Support of the Debtors’ Emergency Motion For Interim Relief From Their Collective Bargaining Agreement with AMFA Pursuant to Section 1113(e),” Exh. C.

<sup>21</sup> Id.

<sup>22</sup> Docket No. 11,055, “Aircraft Mechanics Fraternal Association’s Supplemental Memorandum In Opposition to Debtors’ Motion To Reject Their Collective Bargaining Agreements And Memorandum In Opposition to Debtors’ Motion For Distress Termination of Defined Benefit Pension Plans,”(April 29, 2005), Exh. 1, “Supplemental Declaration of Kevin McCormick, ¶¶ 3 – 10, ¶ 11 (“AMFA countered the Company’s proposal on April 27 with a proposal (Exhibit D) that addressed the Company concerns on use of sick leave by agreeing to reduce sick leave accruals. **That proposal also included a full cost of a proposed pension replacement at 8% versus the Company proposal of 4%.**”); Id., at Exh. D, Cash Savings – AMFA Proposal 4-27-05 (“**Pension: Replacement Plan at 8% Defined Contribution.**”). [Emphasis supplied].

<sup>23</sup> Docket No. 11,024 (April 26, 2005), “Emergency Motion to Approve Agreement with PBGC,” Exh. A.

<sup>24</sup> Docket No. 11,171 (May 6, 2005), “Objection of Aircraft Mechanics Fraternal Association To Debtors’ Emergency Motion To Approve Agreement with PBGC,” pg. 1 (“AMFA submits that the Debtors’ Motion should be denied because the Settlement Agreement between United and the PBGC contains an improper termination date for the Ground Employees’ Plan.”)

<sup>25</sup> Docket No. 11,229, (May 11, 2005), “Order Approving Debtors’ Emergency Motion to Approve Agreement with PBGC.”

<sup>26</sup> Id.