COMMERICAL AVIATION

Preliminary Observations on Legacy Airlines' Financial Condition, Bankruptcy, and Pension Issues

What GAO Found

U.S. legacy airlines have not been able to reduce their costs sufficiently to profitably compete with low cost airlines that continue to capture market share. Internal and external challenges to the industry have fundamentally changed the nature of the industry and forced legacy airlines to restructure themselves financially. The changing demand for air travel and the growth of low cost airlines has kept fares low, forcing these airlines to reduce their costs. They have struggled to do so, however, especially as the cost of jet fuel has jumped. So far, they have been unable to reduce costs to the level of their low-cost rivals. As a result, legacy airlines have continued to lose money—$28 billion since 2001.

Although some industry observers have asserted that airlines undergoing bankruptcy reorganization contribute to the industry's financial problems, GAO found no clear evidence that historically airlines in bankruptcy have financially harmed competing airlines. Bankruptcy is endemic to the industry; 160 airlines filed for bankruptcy since deregulation in 1978, including 20 since 2000. Most airlines that entered bankruptcy have not survived.

While bankruptcy may not be detrimental to the health of the airline industry, it is detrimental for pension plan participants and the PBGC. The remaining legacy airlines with defined benefit pension plans face over $60 billion in fixed obligations over the next 4 years, including $10.4 billion in pension contributions—more than some of these airlines may be able to afford given continued losses (see figure). Various pension reform proposals may provide some immediate liquidity relief to those airlines, but at the cost shuffling additional risk to PBGC. Moreover, legacy airlines still face considerable restructuring before they become competitive with low cost airlines.

![Graph showing fixed obligations over time](Image)

Source: PBGC and SEC filings.

Note: Fixed obligations in 2008 and beyond will likely increase as payments due in 2006 and 2007 may be pushed out and new obligations are assumed.