



Our Mission Statement

To work to preserve the earned pensions, health insurance and other benefits paid by Delta Air Lines to retired Delta pilots, their dependants and survivors.

www.dp3.org

November 18, 2006

DP3 and Delta meet over pension calculations

Dear DP3 member;

DP3 Trustees Roger Ross, Don Mairose, Jim Gray and retired Captain Jim George, a pilot benefits expert, met with this week with Delta pension specialists and Towers Perrin actuaries.

DP3 requested the meeting to help us better understand why there were large benefit differences between apparently similar pilots' careers, how 1,045 pilots were reduced to a zero check, approximately three hundred more reduced to near zero and to review with Delta how the calculations were performed.

The meeting was open, informative and cordial; it lasted several hours with an unrestricted exchange of questions and answers. It was obvious that Delta spent a great deal of time and resources to develop a comprehensive presentation specifically for the DP3 committee.

We were shown several detailed examples to illustrate the number of variables—several of which we were not aware—that are required in the details of each pilot's individual estimated benefit calculation. With help from Delta and its actuaries, we thoroughly explored the methods and rules that are used to estimate the PBGC qualified pension benefit amounts which began Oct. 1 and will now be recalculated for the Feb. 1. checks.

We had hoped to come away from this meeting able to outline to you a basic methodology behind the calculations. However, the calculations

are so complex—more so than any of us could have believed—that it quickly became clear that no reasonably simple, easy-to-understand, plug-and-play method or tool exists to reliably and accurately duplicate the laborious benefit estimate process.

For example, as a part of each pilot's benefit estimate, parallel calculations must be run on as many as seven different scenarios to determine PC3, PC4 and PC5 benefits. The thousand or so pilots with QDROs have another set of calculations.

In addition, many changes to the laws have a phase-in for statutory benefit limits, compensation limits and interest rate assumptions, making a pilot's precise age and month of retirement important variables. Market performance must also be accounted for in annuitizing lump sum amounts and in determining the present value of variable benefit changes.

We talked about how the term PC3, PC4 or PC5 "people" has come into common use. In fact, it is imprecise to think of it that way since "people" may have benefits under any or all of PC3, PC4 or even PC5, and should therefore not be conceptually restricted to just one category. A small point, perhaps, but one that illustrates the nuances in PBGC benefits calculations.

There is much more, and, as you might now see, none of this is either simple or intuitive.

We also came away with a better explanation of why the PBGC takes so long to arrive at its final figures. It does a labor-intensive, manual source document audit on every beneficiary to verify each data point upon which calculations will be based—and then it goes through all of the calculations over again.

Here is more of what we learned:

- It is almost meaningless to generalize about how any one pilot's estimated benefit might compare to another. The scope and subtlety of the myriad factors that comprise one estimate do not provide a valid comparison to another seemingly similar pilot's estimate. Each one is distinctly different; this is not batch processing.
- Delta has continued to work with the PBGC, reviewing and refining the application of the PBGC's rules and Federal law in estimating benefits. When the review is completed and agreement with the PBGC is reached, the changes resulting from this review will appear in the Feb. 1, 2007 checks.

- It is probable that some pilots with zero or minimal PC3 benefits will receive an increased estimated PC3 benefit check in February; others may see a reduced benefit. Remember, the pool of available money remains the same but the calculus of distribution will change—it is a zero-sum process.
- These changes will result from an updated understanding of the rules applying to some pilots who retired after Sept. 2001. (IRC Section 415(b) limits if you really want to know.)
- Delta told us that its goal from the beginning was to pay its best estimate of the PBGC benefits that are due under the law. The estimate would be based on the funding level of the plan, applicable regulatory limitations and required actuarial assumptions. This was done to avoid unanticipated adverse benefits changes as the PBGC completes its final calculations over the next 2-3 years.
- Each affected pilot will receive a detailed individual accounting of how his or her estimated benefit was calculated that will reflect the Feb. 1, 2007 benefit estimate amount. Pilots should begin receiving these statements in January; all pilots should receive these statements regardless of when the PBGC formally assumes Trusteeship of the pension plan.
- Delta is preparing representative example calculations addressing the most common estimated benefit situations. Delta said it hopes to have these examples and explanations posted on the Delta retiree web site by the end of November.
- It is possible that a part of any financial recovery obtained by the PBGC through its negotiations with Delta would be put back into the plan. This would potentially increase benefit payouts to participants up to the appropriate PBGC limits. This might not occur until the PBGC's final calculations are complete in 2-3 years. At USAirways, final PBGC calculations for retired pilots are frequently at 100% of a pilot's PC3 benefit.

We are grateful to Delta for its willingness to make this arcane process as transparent and understandable as possible to our DP3 committee and later to all pilots.

Based on what we have learned, it appears that Delta has made every effort to produce an accurate estimate of our PBGC benefits. It continues to refine and update those estimates as new and better information becomes available.

Better evidence of how complete this effort has been will be available when we see our Feb. 1 checks and the detailed statements that will explain how our benefits were determined.

The changes that are forthcoming to our estimated benefits will not be the final word, far from it. The PBGC may do its own review of the estimates and make whatever changes it deems necessary at any time after assuming Trusteeship of the plan.

DP3 will continue to be an active and aggressive advocate for retired pilots on this critical issue.

Thanks to Don, Roger and Jim George who all contributed to this report.

Jim Gray

Chairman, DP3