

February 18, 2003

To All Delta Pilots:

The MEC R&I Committee has received many questions recently concerning the Delta Pilots Retirement Plan (DPRP). For the most part, these questions have been prompted by prominent news coverage of pension plan underfunding, in general, and severe pension plan underfunding in the airline industry, in particular, as well as US Airways' announcement that it intends to terminate the pilots' pension plan effective March 31, 2003. Most of your questions involve what benefits are payable in the event the DPRP is terminated, what would happen to the 50% lump sum option, and what is the funded status of the DPRP. Similar questions have been raised regarding the Delta Pilots Disability and Survivorship Plan. The following article has been updated to help answer these questions.

Although this article discusses plan termination, we do not suggest, and we have no indication or knowledge, that either of these plans will be terminated.

Fraternally,
MEC Retirement & Insurance Committee
Mark A. Mischker, Chairman

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The purpose of this article is to explain, in brief, what happens in the event of the termination of the Delta Pilots Retirement Plan and the related Bridge Plan and Supplemental Annuity Plan (see Part A), and termination of the Delta Pilots Disability and Survivorship Plan (see Part B). It should be kept in mind that this article is an overview only and cannot address every individual's situation.

**A. WHAT HAPPENS TO MY RETIREMENT BENEFITS IN THE EVENT
THE DELTA PILOTS RETIREMENT PLAN IS TERMINATED?**

Question 1: Can the Delta Pilots Retirement Plan ("DPRP") and the related Bridge Plan and Supplemental Annuity Plan be terminated?

Answer 1: Under *Section 26 C.* of the Pilot Working Agreement (PWA), the Company may terminate the qualified DPRP, and the related non-qualified Bridge Plan and Supplemental Annuity Plan, only with ALPA's consent. However, if the Company is in reorganization under Chapter 11 of the Bankruptcy Code and meets the stringent conditions under Section 1113 of the Bankruptcy Code, then it is possible a bankruptcy court could allow the Company to reject the PWA and terminate the DPRP, and the related Bridge Plan and the Supplemental Annuity Plan, without ALPA's consent.

Question 2: What other requirements apply to termination of the DPRP, Bridge Plan and Supplemental Annuity Plan?

Answer 2: Different requirements apply to termination of the DPRP, which is a qualified defined benefit plan, versus termination of the Bridge Plan and Supplemental Annuity Plan, which are both non-qualified defined benefit plans. The non-qualified plans are maintained to provide benefits that cannot be paid from the qualified DPRP due to limitations on qualified plans under the Internal Revenue Code. Benefits under the non-qualified plans are not funded, but rather are paid by the Company, on a pay-as-you-go basis, out of the corporate treasury. Benefits under the qualified DPRP are paid out of the DPRP's tax-exempt trust that is funded by the Company in accordance with the minimum funding rules of the Internal Revenue Code.

If termination of the non-qualified Bridge Plan and Supplemental Annuity Plan is permissible under the preceding Q&A, benefits earned under those plans would be payable, in full, if the termination was not prompted by bankruptcy, but could be reduced or eliminated in the case of a bankruptcy.

If termination of the qualified DPRP is permissible under the preceding Q&A, benefits earned under the plan would be payable, in full, in the case of a "standard termination"

(where the plan is fully funded for benefits), or could be reduced in the case of a "distress termination" (where the plan is not fully funded for benefits), discussed below. In addition, the Pension Benefit Guaranty Corporation ("PBGC"), the federal government agency that administers and guarantees certain pension benefits, could act on its own to terminate the qualified DPRP (in a so-called "involuntary termination"), if it determines that the plan has not met applicable minimum funding standards or will be unable to pay benefits when due, or if it determines that its possible long-run loss in providing guaranteed benefits under the plan will increase unreasonably if the plan is not terminated. A qualified plan termination cannot result in reducing the benefits that any participant has earned up to the date of plan termination, unless the plan termination is either a "distress termination" or an "involuntary termination."

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), requires the plan administrator to provide 60 to 90 days' advance written notice to all plan participants and other affected parties of its intent to terminate a qualified defined benefit plan. If the PBGC is advised that the proposed plan termination violates a collective bargaining agreement and that the plan termination is being challenged under procedures specified in the collective bargaining agreement, the PBGC will suspend processing the termination until resolution of the challenge. However, the PBGC still has the authority to proceed with an "involuntary termination" if the requirements of an "involuntary termination" are met.

Question 3: If the qualified DPRP is terminated, how are plan benefits determined and plan assets allocated among plan participants?

Answer 3: Termination of the DPRP, including determination of plan benefits and allocation of plan assets, is governed by ERISA and administered by the PBGC. Different rules apply depending on whether the termination is a "standard termination" or a "distress termination."

Question 4: What are the requirements for a "standard termination" of the qualified DPRP and how are plan benefits determined and plan assets allocated in that event?

Answer 4: If a qualified defined benefit plan is fully funded for plan benefits (i.e. its assets equal or exceed its liabilities), it may be terminated by the employer in a "standard termination." In a "standard termination," plan assets are used to purchase insurance company annuities designed to cover all liabilities of the plan, for all active, retired and terminated participants and survivors. The DPRP provides that any assets remaining after such a fully funded termination would revert to the Company.

Question 5: What are the requirements for a "distress termination"?

Answer 5: If a qualified defined benefit plan is not fully funded for plan benefits (i.e. its liabilities exceed its assets), it may be terminated by the employer only in a "distress termination." A "distress termination" may occur only if the PBGC determines that the

employer, as well as each entity in the employer's controlled group of entities, satisfies one of four alternate criteria for a "distress termination," as follows:

- the business is in liquidation in bankruptcy, or
- the business is in reorganization in bankruptcy, and the bankruptcy court determines that unless the plan is terminated the business will not be able to pay its debts pursuant to a plan of reorganization and will be unable to continue in business outside the reorganization process, and the court approves the plan termination, or
- the PBGC determines that termination of the plan is required to enable the business to pay its debts and continue in business, or
- the PBGC determines that termination of the plan is required for the business to avoid pension plan costs that have become unreasonably burdensome solely as a result of a decline in the workforce covered by all of the pension plans maintained by the business.

Question 6: How are plan benefits determined and plan assets allocated in the event of a "distress termination" by the employer or an "involuntary termination" by the PBGC?

Answer 6: If the PBGC determines that any of the requirements for a "distress termination" have been met, or if the PBGC institutes an "involuntary termination," the qualified defined benefit plan will be terminated and the plan's liabilities and assets will be allocated among six "Priority Categories" in accordance with ERISA. (Keep in mind that these "Priority Categories" would apply only to a termination of the qualified DPRP and not to the Bridge Plan or Supplemental Annuity Plan.) In general, these six Priority Categories provide as follows:

- Priority Category 1 (PC-1). Under PC-1, plan assets would first be allocated to pay benefits attributable to participants' voluntary contributions to the plan.
- Priority Category 2 (PC-2). If plan assets remain after allocation to PC-1, they are then allocated to pay all benefits under the plan attributable to participants' mandatory after-tax contributions to the plan.

(Note: The DPRP would have little to no exposure to PC-1 and or PC-2 benefit liabilities.)

- Priority Category 3 (PC-3). If plan assets remain after allocation to PC-1 and PC-2, they are then allocated to pay all benefits under the plan (not already covered under PC-1 and PC-2) for:

- (a) each participant and beneficiary whose retirement or survivor benefit was in pay status at least *three years prior to the plan termination date*,
and

(b) each participant and beneficiary whose retirement or survivor benefit *could have been in pay status at least three years prior to the plan termination date.*

Benefits described in (a) and (b) have equal priority. The *amount* of an individual's PC-3 benefit is the amount payable *three years prior to plan termination date*, based on plan provisions in effect *five years prior to the plan termination date.*

Benefits covered by PC-3 would account for the largest portion of assets in the DPRP. Under the DPRP, pilots with five years of service may retire as early as age 50. In addition, a pilot's survivors may receive benefits upon a pilot's death.

Example. If the DPRP were terminated in a "distress termination" on December 1, 2003, PC-3 would cover the benefits payable to:

- all active and retired pilots who, *as of December 1, 2000* (three years prior to the plan termination date), both had five years of service and had attained age 50 (i.e. pilots who are age 53 or older on December 1, 2003); *and*
- all survivors in pay status *on December 1, 2000.*

PC-3 is limited to individuals in the groups described above because only they had begun, or could have begun, to receive benefits from the plan *as of December 1, 2000.* The *amount* of an individual's PC-3 benefit would be the amount that could actually have been payable to the individual *on December 1, 2000* (three years prior to plan termination date), based on the provisions of the DPRP in effect on *December 1, 1998* (five years prior to the plan termination date).

- Priority Category 4 (PC-4). If plan assets remain after allocation to PC-1 through PC-3, they are then allocated to pay all benefits that are guaranteed by the PBGC. The PBGC guarantees a participant's benefits under the plan that are not already covered under PC-1 through PC-3, up to the maximum guarantee amount, as explained below. The PBGC guarantee applies whether or not the plan's assets remaining after allocation to PC-1 through PC-3 are sufficient to cover the benefits described by PC-4.

PC-4 applies to a participant's benefits under the plan without regard to when the participant is (or was) eligible to retire. The PBGC maximum guarantee schedule *in effect on the date of plan termination* is the schedule that will be used to determine the PBGC maximum guarantee amount. The maximum guarantee amount for any individual pilot is based on the pilot's actual age on the later of the plan termination date or his benefit commencement date. The PBGC guarantee for a retired pilot who has already commenced benefits will be based on the retired pilot's age as of the plan termination date, using the PBGC schedule in effect on the date of the plan termination. The PBGC guarantee for an active pilot will be based on the pilot's age as of the date he actually retires

and commences his benefit, using the PBGC schedule in effect on the date of the plan termination.

Following is the schedule of PBGC's maximum guarantee amounts for plans terminating in 2003 (amounts would be higher over age 70 and lower under age 50):

Plans Terminating in 2003

Participant's Age on Later of Benefit Commencement Date or Plan Termination Date	PBGC Maximum Monthly Guarantee	PBGC Maximum Annual Guarantee
70	\$6,083.52	\$73,002.24
69	\$5,460.51	\$65,526.12
68	\$4,910.79	\$58,929.48
67	\$4,434.37	\$53,212.44
66	\$4,031.25	\$48,375.00
65	\$3,664.77	\$43,977.24
64	\$3,408.24	\$40,898.88
63	\$3,151.70	\$37,820.40
62	\$2,895.17	\$34,742.04
61	\$2,638.63	\$31,663.56
60	\$2,382.10	\$28,585.20
59	\$2,235.51	\$26,826.12
58	\$2,088.92	\$25,067.04
57	\$1,942.33	\$23,307.96
56	\$1,795.74	\$21,548.88
55	\$1,649.15	\$19,789.80
54	\$1,575.85	\$18,910.20
53	\$1,502.56	\$18,030.72
52	\$1,429.26	\$17,151.12
51	\$1,355.96	\$16,271.52
50	\$1,282.67	\$15,392.04

For a pilot who received the 50% lump sum under the DPRP prior to a "distress termination," the PBGC's maximum guarantee amount will be reduced to take that payment into account.

The PBGC guarantee amount is phased-in for new benefits or benefit increases that have not been in effect for five years prior to plan termination. The guarantee with respect to an increase in benefits is phased-in (at 20% per year) over the five-year period beginning on the effective date of the plan amendment that increased benefits. The phase-in does not apply to increases that result from statutory or regulatory changes, such as the increase in the 415(b) limit or 401(a)(17) compensation limit. Thus, benefit increases resulting from an increase in the 415(b) or 401(a)(17) compensation limit are fully covered by the PBGC guarantee (up to the maximum guarantee amount) and not subject to the 20% phase-in.

- Priority Categories 5 and 6 (PC-5 and PC-6). If assets remain after allocation to PC-1 through PC-4, they are then allocated to PC-5, to provide all

other vested benefits under the plan, and then to PC-6, to provide all other benefits under the plan.

Question 7: What happens if the plan's assets run out in one of the Priority Categories?

Answer 7: If the plan's assets do not cover 100% of all benefits, then all benefits covered by the Priority Category in which the assets run out are covered equally. For example, if plan assets fully cover benefits in PC-1 and PC-2 but run out in PC-3, then all of the plan's assets left for PC-3 will be used to cover an equal percentage of all benefits covered by PC-3. Benefits described in a Priority Category below the Priority Category in which assets run out will not be paid, with this important exception: Whether or not any plan assets are allocated to PC-4, the PBGC is required to pay the portion of a participant's benefit that it guarantees, as described in PC-4 (see preceding Q&A).

Question 8: If a pilot retires before a "distress termination" of the DPRP, will his or her benefits be in a higher Priority Category, with a higher claim on the plan's assets?

Answer 8: No. A pilot's level of priority is not affected by whether the pilot retires before or after the plan termination date. If the DPRP is terminated in a "distress termination," the plan's assets will be allocated among (and in the order of) the six Priority Categories discussed above. Under these Priority Categories, a retired participant has no higher claim on the assets than does an active participant. Furthermore, for purposes of PC-3, where the bulk of the DPRP's assets would be allocated, a participant's level of priority is determined based on whether the participant is *eligible* to retire as of a certain date, not whether the participant has *actually* retired. Except as described below with respect to the availability of a lump sum, a pilot will not gain an advantage by retiring prior to the plan termination date.

Although a pilot gains no higher claim on assets by retiring before a "distress termination," there may be a difference in the form in which benefits are paid. If a participant is already retired and receiving benefits on the plan termination date, the form in which the benefits are being paid will be continued by the PBGC after the plan termination date. If a participant has not begun to receive benefits as of the plan termination date, the PBGC makes distributions available in the form of a single life annuity, a joint and 50% survivor annuity, a 5-, 10-, or 15-year certain-and-continuous annuity, a joint and 75% or 100% survivor annuity, or a joint and 50% survivor "pop-up" annuity (where the participant's benefit "pops up" to the unreduced level if the beneficiary dies first). Lump sums are not available in the case of a "distress termination."

Question 9: What happens to the 50% lump sum under the DPRP in the event of a "distress termination"?

Answer 9: The 50% lump sum under the DPRP is not available in the event of a "distress termination." In fact, no 50% lump sum will be paid from the DPRP after the date the Company gives participants the required advance notice of its intent to terminate

the plan in a "distress termination." This notice must be given 60 to 90 days prior to the intended date of plan termination. Therefore, payment of the 50% lump sum would be restricted to pilots who have actually received the lump sum prior to the date the advance notice of intent to terminate is given.

In general, the PBGC has the authority to recover lump sum benefit payments made to a participant during the three years prior to a "distress termination." However, the PBGC has indicated to ALPA that it would not likely seek to recapture lump sum payments made prior to the "distress termination" of a pilot plan, since the lump sum payments are not being made in anticipation of the plan terminating but rather in the ordinary course of plan administration.

Question 10: What is the present funded status of the DPRP?

Answer 10: *[Note: This Answer 10 will be updated shortly to reflect the actuarial valuation report as of July 1, 2002.]* In the actuarial valuation report as of July 1, 2001, the DPRP's total assets of \$4,249,276,581 were available to satisfy 100% of the plan's liabilities as an ongoing plan, with a surplus of \$825,472,608. Liabilities of a plan determined on a plan termination basis would be somewhat higher than liabilities determined on an ongoing plan basis due to differences between assumptions made by the plan, insurance companies and the PBGC.

B. WHAT HAPPENS TO BENEFITS AND ASSETS UNDER THE DELTA PILOTS DISABILITY AND SURVIVORSHIP PLAN IN THE EVENT OF PLAN TERMINATION?

Under *Section 26 C.* of the PWA, the Company may terminate the Disability and Survivorship Plan ("D&S Plan") only with ALPA's consent. However, if the Company is in reorganization under Chapter 11 of the Bankruptcy Code and meets the stringent conditions under Section 1113 of the Bankruptcy Code, then it is possible a bankruptcy court could allow the Company to reject the PWA and terminate the D&S Plan without ALPA's consent.

In the event of termination of the D&S Plan, applicable federal law requires that the plan's assets be used only to provide benefits to participants and beneficiaries of the plan, and prohibits any assets from reverting to the Company. Accordingly, the D&S Plan provides that, in the event of plan termination, the assets will be applied as follows:

- First, to provide disabled employees, employees, spouses, children and beneficiaries with benefits they are then currently entitled to receive;
- Second, to provide disabled employees, employees, spouses, children and beneficiaries with benefits arising from deaths or disabilities before termination of the plan, as well as deaths after termination of the plan of participants disabled before termination of the plan; and

- Third, until exhausted, to provide disabled employees, employees, spouses, children and beneficiaries with benefits arising from other deaths or disabilities after termination of the plan.

In the actuarial valuation report as of July 1, 2002, the latest report available, the D&S Plan's total assets of \$1,490,741,557 were projected to satisfy 100% of the plan's liabilities, with a surplus of \$26,574,477.