

DALRC AND DP3

About 1 1/2 years ago it became apparent that employees, and retired employees, needed to stay abreast of and prepare for the possible event of a bankruptcy. At that time, DALRC and the pilots group, DP3, were formed. This meeting was a joint venture by the 2 groups, with participation from Delta Air Lines management and the PBGC. Staying informed is in the interest of all concerned. After introductions of the boards of both groups, we heard from the following speakers:

Ray Collins, of the Pension Benefit Guarantee Corp (PBGC)

"Due to Delta's financial situation, I cannot answer specific questions about Delta's fund as it is ongoing. I can only answer general questions." He then began to show a slide presentation.

The PBGC was established in 1974 as a wholly owned Federal Corporation. It administers a mandatory insurance program to protect pension benefits for private-sector Defined Benefit Plans (DBPs)---plans that promise workers a specific monthly benefit for life at retirement based on *age, salary, and years of service*. It assumes control of *terminated* DBPs and administers the benefits. The *provisions* of the plan (Delta's plan) determine the benefits.

In the event of bankruptcy, the PBGC would determine if they *needed* to acquire the plan, which would depend on the financial health of the Company (Delta Air Lines). The PBGC is financed by: 1. Premiums paid by the plan sponsor (DAL), 2. Assets from trustee plans, (deposits made by DAL) 3. Employers that terminate under funded plans (the PBGC would file claim against the company (DAL) for under funded plans) 4. Income Investment of the Premiums (premiums are invested in bonds and equity funds).

The PBGC currently has sufficient assets to pay benefits for a "number of years" in the future. It is true that the PBGC has a deficit, but that applies to *projected* liabilities in the *future*. They have funds for current and projected payments for a" number of years". (Quote)

The "Date of Plan Termination" will determine the "Guaranteed Benefits". This would begin the clock on each individual's Benefit. The PBGC would then figure the benefits of the Plan on an individual basis.

The Benefit must be:

- 1) A Pension Benefit
- 2) A Vested Benefit

Background information

If the plan is turned over to the PBGC due to a "distress termination" there are Priority categories that will be used to determine the amount of benefit paid to each participant in the plan. The categories that pertain to Delta and their plan would be **Priority 3 and Priority 4.**

The Priority 3 group includes all participants that have been in pay status for receiving a pension at least 3 years under a plan that has been in effect for 5 years. Example, if you are 55 and you have at least 10 years of service with Delta, you will be considered in Category 3 because Delta's plan states you cannot retire and **draw** a retirement check until you are at least 52 for the non pilot group and 50 if you are a pilot. It does not matter whether you are active or retired to qualify for this status, the key is you must be "eligible" to retire and receive a pension check for at least 3 years. Another important factor is the plan cannot have been modified within 5 years as you will be required to use the rules of the plan that were in place 5 years prior to plan termination (this means that people receiving extra credit for service or years added to their age must go past the 5 year mark with those changes before they are valid changes and will be recognized as payable toward their pension if the plan is terminated). For people retiring under Pension Plus, the magic date is 5 years from the date the plan was amended to reflect that change which is approximately November 01, 2001. For people that have received the additional

5 years of credit offered in the early 90's, your 5 years has already been secured into your retirement benefit since it has been more than 5 years since the plan was changed that you retired under). People that qualify for this category are paid first in the event of a plan termination. Unlike the method used to determine your benefit under the PBGC guidelines, In Category 3 the total amount of money in the fund at the time of termination is available to fund each participant in category 3 up to and including their full retirement pension **IF** there is enough money in the plan to do so. This means that if you qualify for the "P" 3 category, you will not automatically go under the PBGC limits. If it is determined that there is not enough money in the plan to pay everyone in the "P" 3 category 100% of their pension yet there is enough money to pay everyone (example) 90% of their earned retirement then everyone would receive the same percentage of their full benefit. This method will be used until it would be more beneficial for the plan participants to use the guarantee provided by the PBGC rules. If there was still money left in the plan to fund after everyone in "P" 3 has been paid, then the same method will be used to fund the "P"4 group.

The Priority 4 group includes all vested participants in the plan up to age 55 according to Delta's plan provisions for the non pilot group and 53 for the pilot group. If there is not enough money to fund all participants in the "P" 4 status their full pension, this is when the PBGC guarantees will be used (many times, when pension plans are underfunded, this is the group that is impacted the most). If you are in the Priority 4 group and there are not enough funds to cover the entire group, the PBGC provides insurance against your pension benefit to protect it "to a certain level".

PBGC Benefits Covered

1) Normal retirement benefits 2) Most early retirement benefits
3) Certain survivor benefits 4) Disabled: Must be disabled by the date of the plan termination, and must be entitled to a Disability Benefit under plan provisions.

Benefits Not Covered: 1) Health Care Benefits 2) Unpaid leave 3) Life Insurance
4) Travel Benefits

How Benefits are determined:

1. By the provisions of your plan, (Delta's Plan) subject to the limits set by law.

2. Limited by:

A) Supplements, (not a Pension benefit and temporary in nature)
B) Maximum Guaranteed Benefit (\$3,698.86 per month at age 65 as straight Life Annuity for plans terminated in 2004) This benefit is indexed to Social Security and Increases each year by the amount of the SS benefit increase. Those who have already retired would not benefit by any increase after they retired.

3. Phase In

Any benefit increase that has not been in effect for 5 full years prior to the Date of Plan Termination (**DOPT**) is pro-rated at the greater of \$20.00 or 20% a year (this is different from the "P 3" group as the P3 group does not receive credit for anything less than the total 5 year look back from the plan termination date to determine your benefit) . An example would be those who retired in 2001 having received 5 years on age. If Delta's plan was terminated in 2004, the provision would have only been in effect for 3 years, so 20% per year x 2 years would reduce the benefit by 40% (would only apply to the **additional monies** that were credited for the 5 years).

"The amount of the Pilot Lump Sum is offset against PBGC guaranteed amount so that no PBGC payment would be paid under the Priority 4 guarantee." (Quote from Mr. Collins.)

Plan Administration for Retirees

Checks continue without interruption
Electronic deposits continue
Benefit option chosen will continue
Federal tax withholdings will continue

"The model was designed to set a goal," said Michael Palumbo, executive vice president and chief financial officer, who joined a panel of executives that afternoon. "It was designed to take bankruptcy out of the question. So we're not without risk, but once achieved, it's a very sound base to continue."

Looking at the network

Paul Matsen, chief marketing officer, said Delta has to change the customer perception. The new model focuses on simple, stylish, comfortable, inviting and affordable service for Delta customers.

Matsen said SimpliFares, which offers Cincinnati-area customers an everyday, low-priced fare structure, will help Delta redefine the customer experience. Since its introduction last month, Cincinnati bookings have increased 64 percent, and delta.com bookings are up 105 percent. The changes we're making have additional benefits, too," said Grinstein. "Leather seats are more attractive and easier to maintain. LED lighting is appealing and costs less over time, and new uniforms are higher quality and less expensive to produce."

Transformation highlights

Updating and upgrading customer products and services, including cabin interiors and online capabilities, and maintaining two-class service.

- Discontinue hub operation at Dallas/Fort Worth International Airport; eliminate service to Amarillo and Lubbock, Texas, as of Jan. 31; and redeploy those assets to grow hubs in Atlanta, Cincinnati and Salt Lake City.
- Add 31 nonstop flights to 19 new destinations from focus cities, including Boston; New York-JFK; Columbus, Ohio; Fort Lauderdale, Orlando and Tampa, Fla.
- Expand Song, initially adding 12 aircraft.
- Increase international service and domestic seasonal service and capitalize on alliance partnerships.
- Simplify fleet by retiring at least four fleet types during the next four years and increase aircraft utilization through more efficient hub scheduling.
- A reduction of between 6,000 and 7,000 jobs during the next 18 months. An additional 15 percent reduction in administrative overhead costs, including further management headcount reductions. Reductions in compensation throughout the company.
- Implement employee reward program, which will include equity, profit-sharing and performance-based incentive payouts.

XX

Mike Palumbo, Chief Financial Officer

