

## **SURVIVOR BENEFITS FROM THE DELTA PILOTS DISABILITY AND SURVIVORSHIP PLAN**

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Even in the post-bankruptcy environment, the Delta Pilot Disability and Survivorship Plan (D&S Plan) provides **a benefit to eligible survivors of deceased Delta pilots (including both disabled and normally retired pilots) — a survivor’s benefit that is distinct from and in addition to any joint life annuity benefits payable under the Delta Pilots Retirement Plan.** This article will review the survivor benefits under the D&S Plan and discuss potential threats to those benefits.

Survivors eligible to receive benefits from the D & S Plan include the “Qualifying Spouse” and in addition, may include natural born or legally adopted children under the age of 19 (under age 23, if still in school.) (IMPORTANT NOTE: A “Qualifying Spouse” is a spouse who was married to the pilot while he/she was an active Delta pilot, and who remains the pilot’s legal spouse continuously up until the pilot’s death (see the Pilot Benefits Handbook for details.)

### **HOW MUCH CAN A SURVIVING SPOUSE EXPECT TO RECEIVE?**

If you elected a lump sum distribution from the Delta Pilots Retirement Plan, a rough approximation of the surviving spouse’s benefit under the D&S Plan is the amount of annuity income that you were receiving from the Delta Retirement Plans (both Qualified and Non-Qualified) prior to Delta’s bankruptcy. For pilots who retired after Sept 1, 2005, but before Jan 1, 2008, a rough estimate is one-half of the formula retirement benefit that should have been payable if the Delta Pilots Retirement Plans had not been terminated.

A more accurate estimation involves calculations based upon final average earnings, years and months of Delta service, age at retirement, and variable increases that have occurred since the date of your retirement. An up-to-date estimate of your survivor’s benefits from the D&S Plan can be obtained by making a request through the Employee Service Center (1-800-MY-DELTA.) A worksheet that calculates estimated survivor’s benefits is posted on the website of the Delta Disabled Pilots and Survivors Association (DDPSA) at [www.ddpsa.org](http://www.ddpsa.org).

Finally, most retiring Delta pilots elected a “single life annuity” from the Delta Pilot Retirement Plan based on their reliance on the survivor’s benefit provided by the D&S

Plan. However, if you elected a joint life annuity under the Delta Pilot Retirement Plan, an additional survivor's benefit may be payable from the PBGC.

### **DETAILS OF THE CALCULATION**

There are various formulas relating to the age of the pilot at the time of death and the number of eligible family members. In general, a surviving spouse is entitled to a benefit that equals 30% of the pilot's Final Average Earnings (FAE) if the pilot had at least 25 years of Delta service prior to retiring at age 60. For pilots who had less than 25 years of Delta service, the survivorship benefit is prorated based upon the pilot's number of months of service with Delta as compared to 300 months (25 years of service.) There is also an early retirement reduction of 3% per year (.25% per month) for pilots who retired before age 60. One-half of the Survivorship Benefit has a variable feature which has the potential to increase the benefit significantly over time. Examples of the calculation of Survivorship Benefits provided by the D&S Plan are included in Attachment #1. Details about the variable benefit are included in Attachment #2.

### **CHANGES THAT OCCURRED UNDER BANKRUPTCY**

During the Bankruptcy process Delta and ALPA negotiated Letter of Agreement #51 (LOA #51) which made changes to the D&S Plan. However, **these changes did not affect:**

- a. disability and survivorship **benefits of pilots who retired on or before June 1, 2006**, (or were considered to be retired as of that date),
- b. survivorship benefits of **survivors already receiving benefits from the D&S Plan** or
- c. survivorship benefits of **pilots who retired before January 1, 2008.**

The major changes under LOA #51 included the following:

1. In the course of negotiations, ALPA agreed to allow Delta to spend **\$60 million per year from the D&S Trust Fund** to pay for pilot sick leave and other expenditures **in addition** to the previously authorized D&S Plan benefits. This \$60 million annual draw from the D&S Trust appears to have filled a gap between the negotiating positions of Delta and ALPA.
2. Future D&S Plan liabilities were reduced by replacing earnings-based survivor benefits with term life insurance beginning in January 2008.
3. Future disability benefits were modified to incorporate various offsets and to terminate at the mandatory FAA retirement age. In lieu of the post-retirement disability benefit, disabled pilots (who were not considered to be retired on or before June 1, 2006) will receive contributions to a defined contribution retirement plan in the amount of 22% of the Long Term Disability benefit until reaching the FAA mandatory retirement age.
4. The D&S Plan participant base was permanently restricted to include only pilots, retired pilots and survivors of deceased pilots.

5. A funding mechanism was defined. Beginning in 2011, if the D&S Trust assets fall below \$1.2 billion, Delta will be required to contribute to the D&S Trust, \$60 million annually or 4% of free cash flow, **whichever is less**. However, Delta will continue to have the right to withdraw \$60 million annually from the D&S Trust Fund for pilot vacation and sick pay.
6. The source of funding for D&S Plan benefits was expanded to specifically include Delta, rather than having the D&S Trust Fund as the sole source of funding benefits.

### **FINANCIAL STATUS OF THE D&S PLAN**

The latest information available to Plan Participants is contained in the IRS Form 5500 (and accompanying financial statements) for the Plan Year that ended on June 30, 2010. As of June 30, 2010, the D&S Plan had **Assets** valued at **\$989,723,000**; however, the notes to the financial statement included in the tax filing indicate that the Plan Assets increased to approximately **\$1.1 billion** as of Dec 31, 2010. **Plan Benefit Obligations** as of June 30, 2010 increased from \$1.575 billion to **\$1.861 billion**. A significant portion of this increase resulted from a reduction in the discount rate from 6.375% to **5.125%**.

During the Plan Year from July 1, 2009 through June 30, 2010, the Plan paid approximately **\$176.4 million** to Plan Participants and Beneficiaries (including the \$60 million expenditure for pilot sick pay), approximately **\$4.2 million** in insurance premiums and approximately **\$2.8 million** in administrative, management and investment advisory fees. By April 15, 2011, Delta was required to contribute 4% of the previous year's free cash flow (up to a maximum contribution of \$60 million). Additionally, on a quarterly basis, Delta reimburses the D&S Trust for disability and life insurance benefits paid to any pilot who was on the Northwest Airlines seniority list prior to October 30, 2008.

During the Plan Year from July 1, 2009 to June 30, 2010, **investment gains were \$147.9 million** and **interest and dividend** income equaled approximately **\$4.2 million**.

### **LOOKING TO THE FUTURE**

Delta repeatedly has stated that it intends to maintain the D&S Plan indefinitely; however, **Delta has reserved the right** (subject to the collectively bargained agreement) **to modify or terminate the Plan**. If the Plan is terminated, Plan assets cannot revert to Delta, but must be reserved to pay benefits to plan participants. It appears that there would be little incentive for Delta to terminate the D&S Plan as long as there are sufficient assets in the D&S Trust to cover Plan liabilities.

Even if the D&S Trust eventually runs out of assets, the Pilot Working Agreement provides protection against Delta's ability to terminate the D&S Plan. In summary, the security of D&S Plan benefits may rely on the answers to the following questions:

1. Will Delta fulfill its repeatedly stated intentions to maintain the D&S Plan?
2. Will ALPA prevent modification or termination of the D&S Plan in the event that Delta reverses course on its repeatedly stated intentions to maintain the Plan?
3. Will the D&S Trust have sufficient assets to continue to pay D&S Plan benefits if the Plan is terminated?

Finally, it must be noted that there are a number of arguments that the D&S Plan benefits are "vested" benefits which may be protected under various laws. Those arguments, which may be legally sustainable, are beyond the scope of this article.

It is impossible to predict events that could impact the future status of the D&S Plan. Unfortunately, there are valid concerns relating long term pressure on the solvency of the D&S Trust and Delta's reservation of the right to modify or terminate the Plan.

See Attachments #1 and #2 below.

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## ATTACHMENT #1

The following examples illustrate the calculation of the benefit for an eligible surviving spouse under the D&S Plan. Refer to the example that is similar to your situation.

### **EXAMPLE #1: Normally retired Pilot with 25 years of service.**

A pilot retired in 1995 at age 60 with more than 25 years of Delta service and Final Average Earnings (FAE) of \$200,000. The initial calculation of the survivor benefit is 30% of FAE, or \$60,000 (\$5,000 per month). One-half of the monthly benefit (\$2,500) is a Fixed Benefit; the other half (\$2,500), a Variable Benefit. The Variable Benefit is converted to benefit units by dividing it by the benefit unit value **as of the date of his retirement**. The benefit unit value in 1995 was \$21.66; therefore, the conversion produces 115.42 benefit units. If he dies in 2011, (benefit unit value = \$34.32), his surviving spouse will be entitled to a Variable Benefit of 115.42 benefit units X \$34.32 = \$3,961.21.

Therefore, the total survivor benefit is:

$$\text{Fixed benefit} + \text{Variable benefit} = \$2,500 + \$3,961 = \mathbf{\$6,461 \text{ monthly}}$$

There may be future increases or decreases to the Variable Benefit, but it can never be less than the original amount (\$2,500).

### **EXAMPLE #2: Pilot retired with 22 years and 6 months of service at age 55.**

A pilot retired in 2003 at age 55 with 22 years and 6 months (270 months) of Delta service and Final Average Earnings (FAE) of \$250,000. The initial calculation of the survivor benefit is as follows:

$$\text{FAE} \times 30\% \times (\text{months of Delta service}/300) \times \text{early retirement factor}^* =$$

$$\$250,000 \times .3 \times (270/300) \times .85 = \$57,375 \text{ annually or } \$4,781.25 \text{ monthly}$$

One half of the monthly benefit (\$2,391) is a Fixed Benefit; the other half (\$2,391) has a variable feature. The Variable Benefit is converted to benefit units by dividing it by the benefit unit value **as of the date of his retirement**. The benefit unit value in 2003 was \$34.19; therefore, the conversion produces 69.92 benefit units. If he dies in 2011, (benefit unit value = \$34.32), his surviving spouse will be entitled to a Variable Benefit of 69.92 benefit units X \$34.32 = \$2,400

Therefore, the total survivor benefit is:

$$\text{Fixed Benefit} + \text{Variable Benefit} = \$2,391 + \$2,400 = \mathbf{\$4,791 \text{ monthly}}$$

There may be future increases or decreases to the Variable Benefit, but it can never be less than the original amount (\$2,391).

\***The early retirement factor** is determined by the following calculation:

1. Determine the number of months you retired before age 60.
2. Multiply the answer from #1 by .0025 (in this example,  $60 \times .0025 = .15$ ).
3. Subtract the answer from #2 from 1.0 (in this example,  $1.0 - .15 = .85$ ).

**EXAMPLE #3: Former Western pilot, retired in 1995 at age 60.**

A former Western pilot retired in 1995 at age 60 with 7 years and 5 months (89 months) of Delta service and Final Average Earnings (FAE) of \$160,000. The initial calculation of the survivor benefit is as follows:

$FAE \times 30\% \times (\text{months of Delta Service}/300) =$   
 $\$160,000 \times .3 \times (89/300) = \$14,240$  annually.

The initial calculation of the monthly benefit (\$1,186) is divided into a Fixed Benefit in the amount of \$593 and a Variable Benefit of \$593. The Variable Benefit is converted to benefit units by dividing it by the benefit unit value **as of the date of his retirement**. The benefit unit value in 1995 was \$21.66; therefore, the conversion produces 27.393 benefit units. If he dies in 2011, (benefit unit value = \$34.32), his surviving spouse will be entitled to a Variable Benefit of  $27.393 \text{ benefit units} \times \$34.32 = \$940.13$

Therefore, the total survivor benefit is:

**Fixed Benefit + Variable Benefit = \$593 + \$940 = \$1,533 monthly**

There may be future increases or decreases to the Variable Benefit, but it can never be less than the original amount (\$593).

**EXAMPLE #4: Former Western pilot, retired in 2001 at age 60.**

A former Western pilot retired in 2001 at age 60 with 14 years and 3 months (171 months) of Delta service and Final Average Earnings (FAE) of \$170,000. The survivor's benefit is calculated as follows:

$\$170,000 \times 30\% \times (171/300) = \$29,070$  annually or **\$2,422 monthly**.

The monthly Fixed Benefit is \$1,211; and the monthly Variable Benefit, \$1,211. Because Variable Benefit unit values have **decreased** since the date of retirement, the Variable Benefit will remain at \$1,211 (**total survivor benefit \$2,422 monthly**) until the variable unit value exceeds the unit value at the time of retirement. In 2001, the benefit unit value

was \$37.55. As of April 1, 2011, the benefit unit value is \$34.32. Variable increases will begin to occur on April 1<sup>st</sup> of the year that the benefit unit value exceeds \$37.55.

**EXAMPLE #5: Former Pan Am pilot, retired in 2001 at age 60 or greater.**

A pilot joined Delta from Pan Am in 1991 and retired 10 years and 2 months later (at age 60 or greater) with Final Average Earnings (FAE) of \$150,000. The survivor benefit under the D&S Plan is calculated as follows:

FAE X 30% X (months of DeltaService/300) =  
\$150,000 X 30% X (122/300) = **\$18,300 annually or \$1,525 monthly.**

One-half of the \$1,525 monthly benefit has a variable feature that may increase the benefit in the future. Because variable benefit unit values have **decreased** since the date of retirement, the Variable Benefit will remain at \$712.50 (**total survivor benefit \$1,525 monthly**) until the variable unit value exceeds the unit value at the time of retirement. In 2001, the benefit unit value was \$37.55. As of April 1, 2011, the benefit unit value is \$34.32. Variable increases will begin to occur on April 1<sup>st</sup> of the year that the benefit unit value exceeds \$37.55.

**EXAMPLE #6: Disabled pilot, retired at age 60.**

A pilot suffered a heart attack that ended his flying career in at age 53, in 1989. He remained on the seniority list in a disabled status for 7 years and retired at age 60 in 1996 with over 25 years of credited Delta service. At the time of his disability, his FAE was \$120,000. His Long Term Disability (LTD) benefit was initially \$60,000 annually, but as a result of the variable feature, his LTD benefit increased to \$75,154 on the date of his retirement. His Retirement Plan “formula benefit” of \$72,000 (whether or not he elected the lump sum distribution) was deducted from the LTD benefit, providing him with a net benefit from the D&S Plan of \$3,154 annually (\$263 monthly) in the first year after his retirement. At the time of his death in 2011, he was receiving an annual net benefit from the D&S Plan in the amount of \$7,432 (\$619 monthly.) This net benefit is a result of his LTD benefit having increased to \$96,255 and the reduction for retirement benefits (the offset) having increased to \$88,823.

The survivor benefit under the D&S Plan is 50% of the LTD benefit payable immediately before his death (**before offset for retirement benefits.**) In this case, 50% of the \$96,255 annual LTD benefit = **\$48,127 annually or \$4,010.58 monthly.** The variable portion of the benefit may increase over time, but can never be less than the original variable portion of the LTD benefit.

## ATTACHMENT #2

### INFORMATION ABOUT THE VARIABLE PORTION OF D&S BENEFITS

As discussed earlier, D&S Plan benefits are divided into fixed and variable portions. The variable portion is converted to benefit units by dividing the dollar value of the variable portion by the benefit unit value as of the date of retirement or the date that the payment of benefits commence under the plan, whichever comes first. Benefit unit values are determined each year on April 1<sup>st</sup>. The benefit unit value is multiplied by the number of benefit units to determine the Variable Benefit. Accordingly, the variable portion of D&S Plan benefits may increase each year on April 1<sup>st</sup> depending upon the investment performance of the assets in the D&S Trust; however, the Variable Benefit can never decrease below the amount of the initial variable benefit.

The formula for determining the magnitude of variable increases uses a 5 year weighted average of actual investment performance minus 6.5%. The investment performance in the most recent calendar year is counted 5 times; the yield in the previous year, 4 times; the yield 2 years previously, 3 times; the yield 3 years previously, 2 times; and the yield 4 years previously, 1 time. The sum of this calculation is divided by 15 to produce a weighted average of the investment performance. The weighted average of investment performance is reduced by 6.5% to produce the annual change in the benefit unit value.

The table below lists the benefit unit value for the years 1980 through 2011.

<b>YEAR</b>	<b>BENEFIT UNIT VALUE</b>	<b>YEAR</b>	<b>BENEFIT UNIT VALUE</b>
1980	\$7.92	1998	\$28.51
1981	\$8.54	1999	\$31.65
1982	\$9.02	2000	\$35.42
1983	\$9.97	2001	\$37.55
1984	\$11.04	2002	\$37.29
1985	\$11.63	2003	\$34.19
1986	\$12.68	2004	\$33.68
1987	\$13.92	2005	\$33.78
1988	\$14.69	2006	\$34.29
1989	\$15.54	2007	\$35.59
1990	\$16.92	2008	\$37.30
1991	\$17.31	2009	\$33.61
1992	\$18.66	2010	\$33.58
1993	\$19.80	2011	\$34.32
1994	\$21.19		
1995	\$21.66		
1996	\$23.39		
1997	\$25.50		