Delta Retirement Plan
Social Security Offset and Your Pension Benefits:
Myth vs. Fact

Who does the Social Security Offset apply to? The Social Security Offset applies to employees who have what is known as an FAE or Final Average Earnings benefit under the Delta Retirement Plan (the "DRP" or the "Plan"). Generally, this is someone who began work with Delta prior to July 1, 2003. The rest of these Q&A's will only address individuals with an FAE benefit – not those who only have a Cash Balance benefit.

What is the Social Security Offset? The Social Security offset is part of the FAE benefit formula and reduces the FAE benefit from the Plan by 50% of your estimated primary Social Security Benefit, as defined in the Plan. For most participants, the reduction is not applied until you actually begin receiving your Social Security benefits, or your full Social Security age, whichever occurs first (It is a bit different for those who elect the level income option and those who leave Delta prior to reaching age 52).

The Social Security offset allows most participants to receive more of a benefit from the Plan if they decide to retire early in exchange for receiving less benefit from the Plan after their Social Security benefits begin. Keep in mind that, once you begin your Social Security Benefits, total retirement income – the combination of your pension benefit from the Plan and your Social Security benefit – goes up even though you are receiving a little less from the Plan.

Here are three important things to note about the Social Security offset:

- **If you don't work a full career at Delta, we don't take a full Social Security Offset –** If you had less than 30 years of credited service in the Plan as of 12/31/05, then your estimated Social Security benefit - and the resulting offset – gets reduced proportionally. For example, if you only had 20 years service with Delta (two thirds of 30 years), then your offset will be two thirds of 50% of your estimated Primary Social Security benefit i.e. a 33.3% offset.
- **Once we calculate the offset, it does not increase as your Social Security benefits increase year after year -** We determine the Social Security offset at the time you end your employment with Delta. Therefore, ongoing cost of living increases in the Social Security benefit after that date are not included in the offset. This means that if you retire before you begin to receive Social Security, the Social Security benefit we use to calculate the offset will likely be less than your actual benefit. Moreover, you keep 100% of any increase in your Social Security benefit after you elect to commence that benefit because none of that increase gets factored into the offset calculation. The fact is that for most

participants, the Social Security offset is less than 50% of their actual Social Security benefit, and that the percent of offset goes down with every increase in Social Security benefits after retirement.
- **Delta does not take any portion of your Social Security check –** You keep your full Social Security benefit from the Social Security Administration.

Why Do We Have a Social Security Offset? The Social Security offset has been part of the Delta Retirement Plan since it was first established in 1971. The Plan was initially designed so that the combination of the pension benefit received from the Plan and your Social Security benefits would replace about 70-75% of final pay for someone who worked for most or all of their career at Delta and retired at age 65. The offset feature is simply part of the formula that is used to make that happen. This feature also allowed more people to consider retiring earlier since they could get more monthly pension from the Plan in advance of beginning their Social Security benefit.

Don't Other Companies Calculate a Benefit Without the Offset? When companies used to establish defined benefit pension plans, they were generally looking to replace a certain percentage of final pay – using the combination of payments from the pension plan and Social Security – at age 65 retirement, just like Delta was. Some companies designed plans without any Social Security offset, but if they did, those plans would generally target 50% or less of final average earnings as the benefit paid from the pension plan – much less than Delta's 60% of final average earnings with a Social Security offset. Although those employees did not have any Social Security offset, which may make their benefit from the pension plan a little higher after Social Security benefits start, the tradeoff is that they would generally receive a good bit less from the pension plan during the period of retirement before Social Security benefits start. This is why our Plan makes it easier for participants to consider early retirement.

Does the Social Security Offset apply no matter which payment option I choose when I start my pension? Yes. There are two basic payment options to choose from for a retiree with an FAE benefit– the Single Life Annuity/Joint and Survivor option and the Level Income option.

<u>Single Life Annuity/Joint and Survivor</u> – Under this option, essentially you begin to receive a monthly amount from the Plan when you retire, and then when you start receiving Social Security benefits, the amount you get from the Plan goes down by the amount of the Social Security offset. Keep in mind however, that even though your Plan benefit went down, at the same time your <u>total</u> retirement income – the combination of your Plan benefit and your Social Security benefit – goes up, usually by an amount at least equal to the Social Security offset, particularly if you retired before you began to draw

your Social Security. This works a bit differently if you have either already started your Social Security benefits or passed your Social Security retirement age at the time you begin drawing your pension from the Plan.

Level Income – This option is available for retirees who wish to retire before age 62, and is designed for those who want to receive as much benefit as possible from the Plan during the years prior to reaching age 62 (the first year you can begin taking Social Security). In this case the Plan estimates what your Social Security benefit will be at age 62, and calculates how much the Plan can pay you before age 62 so that your total retirement income – the combination of your Plan benefit and your Social Security benefit – stays the same or "level" both before and after reaching age 62. It is important to note that because the Plan uses the same methodology to calculate the Social Security offset in both the Level Income and the Single Life Annuity/Joint and Survivor option, cost of living increases after your retirement date are not included in the offset calculation; therefore it is likely that you will see an increase in your total income at age 62, even though the payment from the Plan will go down. It is also important to note that under this option, it is assumed that you begin taking your Social Security benefit at age 62; thus your Plan benefit will decrease at that time whether or not you actually begin your Social Security benefits.

The options for those who terminate employment before reaching age 52 are a bit different than these.

How does the Offset affect my benefit? Let's look at a simple example for someone choosing a Single Life Annuity/Joint and Survivor form of payment. For simplicity sake, we will assume the FAE benefit exceeds any cash balance benefit and the employee does not take his cash balance benefit as a lump sum. The employee retires today at age 62 with 30 years of credited service as of December 31, 2005 when the Plan was frozen. Final Average Earnings are $3,333 per month also as of December 31, 2005. We will also assume that the Plan determined the estimated Primary Social Security Benefit payable at age 62 to be $1,290 per month.

60% of $3,333/mo.	=	$2,000 per month
Minus 50% of $1290 /mo.	=	$ 645 per month
Delta Pension Benefit		$1,355 per month
Social Security Benefit	+	$1,290 per month
Total Retirement Income from the Plan and Social Security		$2,645 per month

Had this person retired at age 55 with the same 30 years of credited service and $3,333 FAE, then they would have received $1,580 per month from age 55 until age 62. This is calculated as 60% x $3,333 x.79 (reflecting a 3% reduction per year for each year less than age 62). Upon reaching age 62, this retiree would begin receiving a total payment of $2,225 per month from the Plan and Social Security as shown in the table below:

60% of $3,333/mo. =	$2,000 per month
times 79% for retirement prior to age 62 =	$1580 per month
Minus 50% of $1290/mo. =	$ 645 per month
Delta Pension Benefit	$ 935 per month
Social Security Benefit +	$1,290 per month
Total Retirement Income from the Plan and Social Security	$2,225 per month

Note that for simplicity sake, this example ignores any cost of living adjustments in Social Security. As noted above, because the retiree gets the benefit of all increases in the Social Security payments, the actual total income received by the retiree in both examples would likely be more than shown.

But shouldn't the Delta pension just stay the same throughout my retirement? Not under an offset formula. As explained above, the Plan formula was designed to help those employees who wanted to retire early to do so. The trade off was that when the retiree drew his or her Social Security benefit, the Plan benefit went down (though again, total retirement income goes up once the Social Security benefit starts).

While there are many complex factors in calculating a pension, you can think about it basically like this. Take the example above, assuming retirement at age 55, beginning social security benefits at age 62 and death at age 90. Under an offset formula like Delta's, this retiree:

- Would receive $1,580 per month for 84 months during the period from 55 to 62 for a total of $132,720 from the Plan pre-62.
- Once turning age 62, she will receive $935 per month for 336 months for a total of $314,160 post 62. This equals $446,880 from the Plan over her lifetime.
- To pay the same benefit under a non-offset formula, you would take the $446,880 in Plan benefits and divide it by 420 (the total number of months between age 55 and age 90) to get a monthly benefit of $1,064.
- In both cases, she would also receive another $433,440 from social security during the same period ($1290 per month times 336 months between age 62 and 90). Again, any cost of living adjustments paid by Social Security would be in addition to this amount.

As you can see in this example, during the years before 62, the offset formula provides the retiree with $516 per month more from the Plan ($1,580 vs. $1,064 per month), in exchange for receiving $129 per month less from the Plan once reaching 62 ($935 vs. $1,064) – which could be the difference in someone being able to consider early retirement. As long as this retiree lives to age 90, then the Plan is in the same position since the

$43,344 the Plan pays early ($516 times the 84 months before age 62) equals the $43,344 the Plan benefit is adjusted ($129 times the 336 months) during the period from age 62 to age 90.

I heard that Delta made a change to the Plan last year and that changed the way the Social Security offset gets calculated. Is that true? Yes. The Plan used to calculate the Social Security offset in a more favorable way for employees who retired from Delta at or after age 52 than it did for employees who left prior to that age. The result was that the offset was lower (and therefore the benefit payable from the Plan higher) for someone who retired at or after age 52 than if they left prior to that time. Even though we froze other elements of the Plan at the end of 2005, at that time we preserved the ability to “age in” to the more favorable Social Security treatment for those who were under age 52 at that time, so long as they were age 52 or older when they eventually left Delta. This was consistent with our past practice, and we believed it was similar to someone getting a higher benefit simply because they were older when they retired (e.g. the frozen pension benefit you will receive will be higher if you retire at age 62 than if you take your pension at age 52), which is not only permitted under a frozen plan, but required.

We believed that we should be able to leave our Plan like this and still be able to take advantage of the airline funding provision of the Pension Protection Act (the “PPA”) – the thing we all worked so hard together to make a reality (remember that passage of the PPA is what enabled Delta to save its pension plan, unlike United and US Airways, which didn’t even attempt to do so). However, the Internal Revenue Service (the “IRS”) is responsible for determining whether an airline pension plan qualifies for that relief, and even though we argued with the IRS that our position was correct, they did not agree with us. They told us that for purposes of determining whether a Plan could qualify for the airline funding provision of the PPA, no participant could “age into” the more favorable Social Security offset calculation. Thus, their conclusion was that the December 31, 2005 amendment was not sufficient for purposes of the PPA and that in order to qualify for that funding schedule that is enabling Delta to save our Plan, we had to further amend the Plan as we did in March of 2007.

I heard that Delta did not have to make this change? Wasn’t it an “election” that Delta chose to make? Not true. We had to make this change if we wanted to save our plan for ground employees and flight attendants. The IRS required that we do so in order for us to be eligible to elect the special airline funding provisions under the PPA that we all worked so hard to make a reality. We had to make this change because:

- We could not afford to fully fund the pension plan under the funding rules that would apply if we didn’t elect the PPA option. To do so would have cost several billion dollars. No restructuring plan could have provided this level of funding.

- Not electing airline funding relief under the PPA would have left us with no choice other than to terminate the Plan.
- By "electing" to take advantage of the special airline funding provision of the PPA, we got a funding schedule that is much more predictable and affordable. This schedule stretches out our obligation to fund the Plan over a period of at least 17 years.
- Before "electing" to take advantage of airline relief, the IRS required that our Plan be completely frozen.

This was something that United and US Airways did not even attempt. They just elected to terminate their plans altogether, and their unions were unable to do anything to stop them.

If this change was required, why didn't you do it at the same time you froze other features of the Plan on December 31, 2005? At that time it was not at all clear that the PPA would require us to take this step (remember, the PPA was not passed until the summer of 2006). The initial version of the airline relief bill, which we helped draft, would clearly have allowed the "age in" feature described above to remain unchanged. It was only after final Congressional negotiations in 2006 that this provision of the airline funding portion of the PPA was modified to the form that was approved by Congress.

Didn't you know about it for a long time before you announced it? Why did Delta wait until February of 2007 to "spring" this on us? Our discussions with the IRS occurred in the fall and winter of 2006 after passage of the PPA, and we argued our point with them until literally the final possible day. We waited as long we could to make the Plan amendment because it was the right thing to do for Delta people.

- Delta would have gained no financial benefit from electing relief earlier in our bankruptcy process, but we had to elect it prior to emerging from bankruptcy.
- We were hopeful that we could convince the IRS that our view was right. Had that argument been successful, we would have been able to elect airline relief without taking this action.
- By waiting as long as we possibly could, more people were able to reach age 52 and, therefore, fewer people were affected by this change.

Doesn't this change reduce accrued benefits? I thought that was illegal under ERISA? The amendment is not illegal and it does not violate ERISA. The Plan is in full compliance with the law.

The amendment had no impact at all on:

- Anyone who was already age 52 or older on March 31, 2007
- Anyone who was under age 52 on March 31, 2007 and whose employment terminates prior to reaching age 52

For those who were not yet 52 on March 31, 2007 and who continue to work for Delta past age 52, it is true they will receive a small amount less from the Plan than what they would have received before the Plan amendment. Under the IRS interpretation of our Plan, those who were not yet 52 on March 31, 2007 had not yet accrued the right to the better Social Security Offset treatment that our Plan applies to those who were 52 or older on that date. In the IRS's view, continuing to allow people to "age in" to that better treatment was a "benefit increase" and benefit increases are prohibited for Plans who elect the special airline funding relief under the PPA. As stated above, we disagreed with the IRS in this view and tried to convince them otherwise, but were not successful in doing so.

We were very clear about this in the notice announcing that amendment and even gave samples to illustrate the impact on individuals. For an estimate of how this amendment affects you, see the final Q&A in this document.

When Did This Change Take Affect? March 31, 2007.

Who Did This Change Affect? This change <u>only</u> affects you if all three of the following apply:

- You were under age 52 as of March 31, 2007; and
- You have an FAE benefit in the Plan; and
- You continue to work at Delta after reaching age 52.

Note that even before this amendment, if you left Delta prior to age 52, you did not qualify for the more favorable treatment.

Who Did This Change <u>NOT</u> Affect? This change does not affect you if you:

- Were 52 or older on March 31, 2007
- Were less than 52 on march 31, 2007 but terminate your employment before reaching age 52
- Do not have an FAE benefit under the Plan (i.e. you have only a Cash Balance benefit).

So What Does This Mean to Me? If you were under age 52 on March 31, 2007 and you subsequently retire at or after age 52, this change has the effect of increasing the Social Security offset and decreasing your retirement benefit under the Plan compared to what would have happened if we had not been required to make this change. Let's look at an example of before and after the change.

This employee has 15 years of credited service as of December 31, 2005, was age 45 as of March 31, 2007, and had $40,000 in pensionable earnings in 2005. He retires at age 62. For this example, we are ignoring the cash balance provisions of the Plan. His monthly FAE is $3,250.

	Before Change	After Change
1. Final Average Earnings (FAE)	$3,250	$3,250
2. Service Fraction (180 months/360 months)	.5	.5
3. 60% x FAE x Service Fraction	$975	$975
4. Estimated Social Security	$950	$1,375
5. Service Fraction (180 months/360 months)	.5.	.5
6. Social Security Early Reduction Factor	.8	.8
7. 50% x SS x Service Fraction x ERF	$190	$275
8. Monthly Benefit at Age 62 (line 3 minus line 7)	$785	$700

I was under 52 years of age on March 31, 2007 and I plan to work here until after age 52, how do I tell what the impact on me was?
The tables on the next page, which were included in the original announcement, give you examples of the impact the amendment is estimated to have on the monthly retirement benefit starting at age 62. The examples illustrate the estimated difference in the monthly benefit due to the Plan change, based on years of service, pay and age at the applicable dates shown.

Estimated Reduction in Monthly Pension Benefit at Age 62 Retirement
5 Years of Service at 12/31/05

2005 Pay:	Age at 1/31/07					
	25	30	35	40	45	50
$25,000	$55	$40	$25	$20	$15	$10
$30,000	$60	$40	$30	$25	$20	$15
$35,000	$70	$45	$35	$30	$20	$15
$40,000	$75	$50	$40	$35	$25	$20
$50,000	$85	$60	$50	$40	$30	$20
$60,000	$85	$60	$50	$40	$30	$20
$80,000	$95	$70	$55	$40	$25	$15

15 Years of Service at 12/31/05

2005 Pay:	Age at 1/31/07					
	25	30	35	40	45	50
$25,000	N/A	N/A	$80	$60	$45	$35
$30,000	N/A	N/A	$95	$75	$55	$40
$35,000	N/A	N/A	$110	$90	$65	$45
$40,000	N/A	N/A	$125	$100	$75	$55
$50,000	N/A	N/A	$145	$115	$90	$65
$60,000	N/A	N/A	$150	$120	$85	$55
$80,000	N/A	N/A	$165	$120	$75	$50

20 Years of Service at 12/31/05

2005 Pay:	Age at 1/31/07					
	25	30	35	40	45	50
$25,000	N/A	N/A	N/A	$85	$65	$45
$30,000	N/A	N/A	N/A	$100	$75	$55
$35,000	N/A	N/A	N/A	$115	$90	$65
$40,000	N/A	N/A	N/A	$135	$100	$70
$50,000	N/A	N/A	N/A	$155	$120	$85
$60,000	N/A	N/A	N/A	$155	$110	$70
$80,000	N/A	N/A	N/A	$160	$100	$65

30 Years of Service at 12/31/05

2005 Pay:	Age at 1/31/07					
	25	30	35	40	45	50
$25,000	N/A	N/A	N/A	N/A	N/A	$65
$30,000	N/A	N/A	N/A	N/A	N/A	$80
$35,000	N/A	N/A	N/A	N/A	N/A	$95
$40,000	N/A	N/A	N/A	N/A	N/A	$105
$50,000	N/A	N/A	N/A	N/A	N/A	$130
$60,000	N/A	N/A	N/A	N/A	N/A	$110
$80,000	N/A	N/A	N/A	N/A	N/A	$100