



The Evolution of Non-Contract Delta Air Lines Retiree Benefits

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The Evolution of Non-Contract Delta Air Lines Retiree Benefits

An overview of the on-going reduction of non-contract Delta retirees' benefits

Delta Air Lines Retirement Committee (DALRC) has developed the following document to provide an overview of the evolution of the non-contract, Delta retiree benefits. For nearly two decades, the early retirement benefit packages promised by Delta Air Lines have been continually stripped away from the non-contract group of retirees. Because Delta is not contractually obligated to keep the past promises made to retirees, the global airline's new management team continues to use its "direct relationship" with the non-contract retiree group to increase cost and reduce the benefits provided to them. This direct relationship is Delta's "promise" to retirees in lieu of a written agreement - an agreement that retirees at every other major airline in the industry have today.

The time is past due for Delta to provide a written guarantee to the non-contract retirees regarding their current and future retirement benefits. Non-contract retirees need to get back the stability they once enjoyed regarding one of the most important aspects of their lives during retirement, good health care coverage at an affordable cost. The Delta non-contract retirees earned these benefits through decades of service to Delta Air Lines. They deserve the same stability that retired persons at all other major airlines have through a written agreement—even through financially challenging times.

Background

Delta non-contract retirees have been given the option to participate in many different early retirement programs over the past 15 years. For many Delta employees, the programs were very attractive because they allowed the employee, age 52 and older, to retire with an insurance program that provided a good benefit package at an affordable cost. It also provided the retirees with a sense of security of having insurance in their retirement years.

These early retirement programs were offered as minimal or no cost options. These cost options, along with the reductions in their income, were key factors Delta employees considered prior to making a decision whether or not retirement was a realistic financial option. Moreover, the retiree candidates considered the history of how retirees had been treated in the past by Delta's management team. Delta's track record for the "direct relationship" and company culture, having existed for decades, was documented to show that it treated people fairly and the company's leadership did the right thing when it came to how it valued members of the "Delta Family"; therefore, there wasn't a reason to require them to put their programs in writing.

A Change in Management

Delta's track record for its retirees was stellar between 1977 and 1993. For more than 15 years, the out-of-pocket cost remained the same. The situation began to change in 1993 when the out-of-pocket cost was increased from \$750 to \$1,000 for an individual and from \$1,500 to \$2,000 per family. Despite this, Delta continued to have exceptional health care benefits for their employees and retirees, due in large part to Delta's ability to keep their cost down with regard to labor relations and the implementation of the 150 percent cap on cost of health care. Delta had only one large unionized workforce on the property, the pilot union, and this allowed them to save billions of dollars over the decades and provided them with the money to offer excellent pay and benefits to the non-contract employees and retirees.

Although Delta continues to have a largely non-unionized workforce, today the out-of-pocket cost for health care has gone to \$3,000 per individual and \$6,000 per family with increases occurring yearly in almost every area of the coverage plan while the plan design declines. This includes the termination of 100 percent "in network" coverage for services and adoption of a four-tiered drug program, the only one the DALRC is aware of in the industry. One key reason for this decrease in benefits and increase in cost is that the common practice of benchmarking against other airlines benefits has been ignored by the leaders of Delta today. Delta continues to use the money set aside for non-contract retirees' benefits as a "slush fund" from which it can divert funds to other programs — programs that are not for retirees. The non-contract retirees continue to be held at the mercy of new Delta management to provide health care benefits because a written contract does not exist.

Delta continues to use the non-contract retirees' retirement benefits to fund the financial shortcomings of the airline.

The Over-65 Program

Today, non-contract retirees do not have Over-65 health care coverage provided by Delta, however, coverage continues for retired pilots for their Over-65 health care. This is due entirely to the fact that the retired pilot group has a written contract with Delta, a contract that prevented Delta from discontinuing the coverage for retired pilots over age 65 without a huge cost associated with termination of the benefit in bankruptcy. Delta used the bankruptcy process to terminate the Over-65 coverage promised to thousands of Delta non-contract retirees, which saved the company millions of dollars. Delta provided retirees with no compensation for stripping these once dedicated and loyal employees of the promised and very necessary Over-65 health care benefits. A small subsidy was offered to those that qualify, however, Delta made no guarantees to honor the subsidy for life. In comparison, the retired pilots have their subsidies guaranteed for life through their union contracts.

The current arrangement the non-contract retirees have with Delta gives them no input into the yearly changes the company makes to the benefits provided to the group. If the non-contract retirees had a written

guarantee from Delta, they would have the ability to sit down with Delta and discuss the possible changes. Delta acknowledged during the bankruptcy proceedings that the average Delta non-contract retiree lives on less than \$1,670 pension per month. This underscores the reality that the majority of Delta retirees cannot afford to continue to be hit with unfair and disproportionate health care cost increases.

Other Legacy Airlines

The retirees of other unionized carriers do not have the exposure to benefit cost increases that Delta non-contract retirees do because they have contracts that clearly outline their benefits and costs. These contracts are negotiated through their unions and often contain cost caps to ensure that retirees can prepare for their health care costs for years into the future. Retirees from these airlines, such as Northwest Airlines, know their plan design, the costs associated with the plan and the benefits of the plan years in advance. This assures them that their retiree benefits are not only protected, but also allows them the freedom and stability to plan for their cost in future years.

In an effort to provide a look at a unionized airline's benefits, the DALRC contacted the unions at Northwest to obtain information on their benefits. Northwest's benefits are of significant interest given the pending merger between the two airlines. There are a variety of unions that represent Northwest's employees and retirees. These include the International Association of Machinist (IAM), the Aircraft Mechanics Fraternal Association (AMFA), the Association of Flight Attendants (AFA) and Air Line Pilots Association (ALPA). The following is a brief look at the premiums being paid by the retirees in each of these unions as well as the rates for active employees:

- IAM – \$18-\$27 per month currently and the money provided by the bankruptcy claims is currently estimated to last until 2042

- AMFA – pay 25 percent of the total premium, which translates to approximately \$90 per month for a single retiree
- AFA and ALPA – pay 20 percent of the total premium, which translates to approximately \$72 for a single retiree
- Active Employees pay 15 percent of the cost of their health care at Northwest

Each of these groups provides to its members a voluntary employees' beneficiary association (VEBA) which is a special type of tax-exempt trust vehicle which provides employee benefits. These VEBAs are used to fund the retiree's health insurance and vary in size; however they all provide peace-of-mind to the retirees who utilize their funds to pay for health care. In addition to the VEBAs, Northwest retirees have an 80/20 plan design with three tiers of drugs and very small co-pays. This translates into consistent and affordable health care for retirees, something Delta no longer provides.

Prior to the bankruptcy, most Northwest employees and retirees enjoyed free health care until the age of 65. During the 1114 process, all of the work groups at Northwest were represented on the same 1114 committee and all were provided with the same level of compensation with respect to their health care programs for their lost health care in cost and plan design changes. Those losses were turned into bankruptcy claims and each work group determined how they wanted to allocate their bankruptcy claims. The reason there are different levels of cost in their health care coverage today is due to the fact that some unions decided to split their money received for the loss of benefits and plan design changes, taking some money in the form of cash and putting some funds into a VEBA trust to help offset the cost of their health care until they reach the age of 65. Others decided to put all their claims into the VEBA for health care benefits which helped to keep their cost low for decades to come. They all have the similar insurance programs today; both active and retired and the cost of their insurance was spread out among all employees and retirees when the cost of the benefit was

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determined. This practice appears the same throughout the industry with the legacy carriers except for Delta. Delta did use the same process until 2002, and this has been one of the primary reasons for the rising cost of health care to Delta retirees.

This blending of rates is the same across all unionized carriers that DALRC studied—the retirees are protected by a contract for their health care and are able to have stability in their insurance cost over the years. If other legacy airlines impacted by bankruptcy can provide these assurances and benefits to their retirees and active employees alike, and still have to support unions which they admit cost millions of dollars, Delta should certainly be able to provide the same level of benefit to their retirees. After all, that was one of Delta’s key points for why unions were never a benefit to Delta people in the past; Delta used that money to provide excellent pay and benefits to its employees and retirees instead of paying to support union negotiations.

About the Delta Pilot Retiree Group

The retired pilot group, although impacted by Delta’s financial problems, have had representation and a seat at the table through ALPA and the pilot 1114 committee. Despite this, the retired pilots have suffered losses including reductions in pension payments and increases to their health care cost over the years. On the positive side, any changes made to the retired pilots’ costs and benefit structure (such as being included in a pool of retiree only for determination of cost for health care benefits) are negotiated and approved by one of those two groups. The non-contract group had nothing in writing except for the premium cost of two retirement groups, PensionPlus and ERMO, therefore they were limited to what they could negotiate without any other cost or plan design features outlined; such as was outlined in the pilot health care programs.

Conclusions

Delta needs to return to industry standards for providing benefits and live up to the commitments made to retirees that worked for decades. The direct relationship Delta non-contract retirees have today, in lieu of a written

contractual arrangement for health care and retirement benefits, has led to increasing costs and steady decline in benefits of non-pilot Delta retirees. When the leadership of Delta changed, the historical importance of living up to the promises made was changed as well. While Delta has been able to sustain, to some degree, the health care commitments promised to retired Delta pilots, or compensate them for their loss of benefits, the company has elected to exploit those people that did not have a contract and continue to shift more and more of the cost burden of health care to the non-contract retirees.

If Delta continues to tap non-contract retiree benefits to supplement its other programs, these funds will one day be completely gone and with that the health care benefits promised to non-contract retirees. It is time for Delta to stop tapping these funds to hold the company’s costs down. This will not be possible unless the non-pilot retirees are able to secure an agreement in writing from the new management team at Delta—and this begins with a seat at the table for any discussions regarding future health care benefits. If Delta pilots can have stable costs for their health care and other legacy airlines can provide stable health care benefits for their retirees then there is no excuse why the non-pilot retirees should not enjoy the same stability. Delta non-contract retirees deserve stable health care benefits and an equally stable cost basis or compensation for the loss of promised benefits.



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**It is time for
Delta to stop using the
non-contract retiree
health care money as a
“slush fund” to support
other company programs.**



The Evolution of Non-Contract Retiree Benefits—By the Numbers

A record of the costs associated with health care coverage for Delta non-contract employees retiring between 1993 and 2008. The following charts show the cost of paying 100 percent of the premiums along with nine early retirement packages and how they compare to the cost of health care for Delta non-contract retirees today.

Nine Early Retirement Packages

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