MESSAGE FROM DDPSA CHAIRMAN OF THE BOARD—JULY 1, 2013

FROM: **EV GOST**

TO: **DDPSA MEMBERS**

As many of you know, John Erickson is stepping down as Chairman of the Board of Directors of the Delta Disabled Pilots and Survivors Association (DDPSA) and I am assuming that position effective July 1st.

Let me start by thanking John for the remarkable job he has done over the past seven years in establishing and directing an organization that has succeeded in protecting retiree Disability and Survivor (D&S) Plan benefits. I also extend my thanks to Art Fowler, who capably served as the Treasurer of DDPSA since its formation. Jim Haigh will be filling the position of Vice-Chairman and Bob Whitehouse is taking over as the Treasurer. Johanna Erickson has agreed to continue filling the position of Secretary for the short term.

My first message to our membership as Chairman will address the latest available information on the financial status of the D&S Plan. Many of you may have read the Summary Annual Report on the Plan that was mailed recently by Delta. While some of the information below was included in that report, additional information was found from other sources including the IRS form 5500 which must be filed annually by Delta.

REVIEW OF THE DELTA PILOTS DISABILITY AND SURVIVORSHIP FORM 5500 FILED IN APRIL 2013 FOR THE PLAN YEAR JULY 1, 2011 THROUGH JUNE 30, 2012

1. The net Plan assets declined by approximately $140 million to approximately $961 million.
2. Employer contributions were just under $81 million. Approximately $60 million of that amount was required under Letter of Agreement #51 signed during the Delta bankruptcy. The remaining amount probably relates to expenditure reimbursements for payments from the D&S Trust made for former Northwest pilots (disability benefits and life insurance premiums).
3. The direct payment of benefits was $185.6 million.

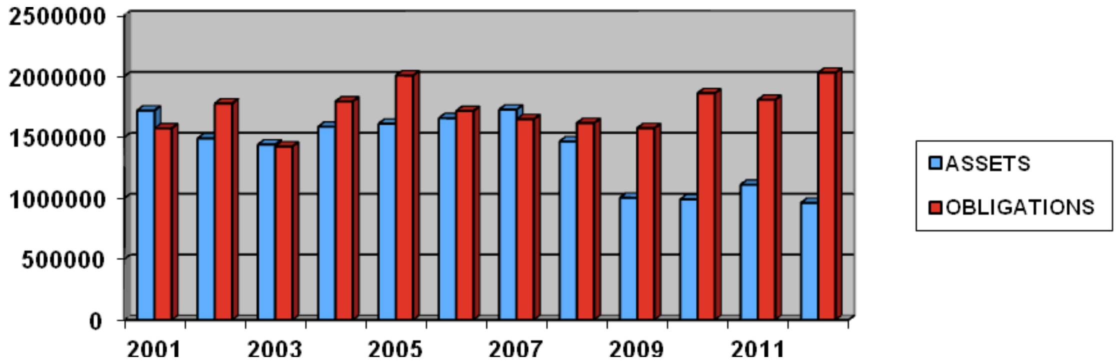
4. Life Insurance premiums were slightly less than $5 million and administrative expenses were approximately $2.5 million.
5. Losses from investments and the sale of assets were approximately $28 million.
6. The Plan had 10,993 active participants (active pilots who have life insurance and disability coverage), 5,237 retired or separated participants receiving benefits (retired pilots who are covered by at least $10,000 of life insurance as well as disabled pilots) and 738 survivors of deceased pilots receiving benefits. It now appears that the number of survivors receiving benefits equals or exceeds the number of disabled pilots who were removed from the seniority list on or before June 1, 2006.
7. Plan benefit obligations increased from approximately $1.8 billion to over $2.03 billion. This increase appears to be attributable primarily to a change in actuarial assumptions. The discount rate was reduced from 5.5% to 4.375% thereby resulting in a significant increase in the net present value of Plan benefit obligations.
8. The bottom line is that as of June 30, 2012, D&S Plan assets constituted approximately 47 % of Plan benefit obligations.

FINANCIAL STATUS OF THE D&S PLAN 2001-2012

The following table and chart reflect financial data relating to the D&S Plan as of June 30th of the years 2001 through 2012.

YEAR	PLAN ASSETS	BENEFIT OBLIGATION	ASSUMED INT. RATE	EXPENDITURES	# OF PLAN PARTICIPANTS
2001	$1,719,570,000	$1,573,165,000	7.50%	$97,302,000	
2002	$1,490,669,000	$1,776,798,000	7.25%	$88,331,000	13,148
2003	$1,439,930,000	$1,424,776,000	8.00%		13,431
2004	$1,585,915,000	$1,793,769,000	6.25%	$95,105,000	13,254
2005	$1,610,728,000	$2,006,791,000	5.125%		12,385
2006	$1,656,846,000	$1,715,266,000	6.125%	$109,402,000	12,313

2007	$1,727,497,000	$1,647,618,000	6.25%	$215,260,000[1]	12,232
2008	$1,465,766,000	$1,616,836,000	6.75%	$184,589,000	12,688
2009	$1,002,822,000	$1,575,066,000	6.375%	$186,306,000	17,404 [2]
2010	$ 989,723,000	$1,861,164,000	5.125%	$183,412,000	17,002
2011	$1,109,694,000	$1,807,000,000	5.50%	$193,290,000	17,213
2012	$ 961,177,000	$2,030,406,000	4.375%	$193,003,406	16,968



The table and chart above reveal the following:

1. Through the Plan year that ended on June 30, 2008, the assets of the Plan were relatively sufficient to pay plan benefit obligations. Since that date, there has been a dramatic decline in the value of Plan assets as a result of (1) declines in equity market values (2) increased expenditures for disability benefits resulting from the termination of pilot pension plans (3) expenditures to provide life insurance for active pilots and pilots who retired after December 31, 2007 (4) increased expenditures for survivor benefits as the number of eligible survivors has increased and (5) expenditures to pay $60 million annually for active pilot sick leave and vacation pay (this expenditure ended in 2012).
2. Increases and decreases in the Plan benefit obligations have been influenced by adjustments in the assumed interest rate.

[1] On May 31, 2006, the bankruptcy court approved the agreement to authorize the expenditure of $60 million for pilot sick leave and vacation pay during calendar year 2006 and $60 million every year thereafter. The expenditures for the Plan Year July 1, 2006-June 30, 2007 appear to reflect more than one calendar year of such expenditures.
[2] The increase in plan participants is a result of the merger with Northwest Airlines.

LOOKING TOWARD THE FUTURE:

The expenditures going forward should be reduced because Delta no longer is bleeding $60 million per year to pay for pilot sick leave and vacation pay. As you may recall, the Pilot Working Agreement (PWA) negotiated during 2012 specified that the $60 million expenditure would be terminated after 2012. The PWA also specified that the last contribution of 4% of the previous year's free cash flow, up to a maximum of $60 million, would be made by April 15, 2013.

These provisions may not have appeared to be significant at the time that the PWA was negotiated because the required contributions may have been expected to offset the expenditures. However, a review of Delta's 2012 financial statement reveals that free cash flow was only $508 million. Accordingly, the required contribution of 4% of free cash flow was only slightly over $20 million. This means that the expenditure for pilot sick leave in 2012 greatly exceeded the related contribution in 2013. It now is evident how damaging the $60 million expenditure for pilot sick could have been to the D&S Plan if ALPA had not negotiated the deletion of that unusual expenditure. For the record, it should be noted that DDPSA had communicated to ALPA our concern that the $60 million annual expenditure was negatively impacting the D&S Trust.

After deleting the $60 million expenditure and taking into consideration Delta's reimbursement to the D&S Plan for expenditures related to former Northwest pilots, the projected annual "burn rate" of D&S Plan assets should be between $110 and $120 million before considering investment gains or losses. The yield on existing net assets of approximately $961 million would have to be unrealistically high in order to produce gains that would carry the load of that projected burn rate over the long term. Consequently, it is becoming clear that without massive investment gains or additional contributions from Delta, the D&S Trust will be depleted over time.

What happens when the D&S Plan assets are depleted?

You will have to wait for my next memo which should be sent out within the next few weeks.

In closing, I will mention that DDPSA is working diligently on your behalf to ensure that D&S Plan benefits will be available for you in future years. I look forward to serving as your DDPSA Chairman and continuing our goal of ensuring the health and longevity of the D&S Plan and related D&S Trust. We need the support of contributors in order to enable us to continue to monitor developments and respond appropriately when necessary.

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DDPSA Chairman

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