



DELTA DISABLED PILOTS AND SURVIVORS ASSOCIATION

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NEWS

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FREQUENTLY ASKED QUESTIONS ABOUT THE CORRECTION OF VARIABLE INCREASES TO THE LUMP SUM RELATED OFFSET TO LONG TERM DISABILITY (LTD) BENEFITS

A number of pilots receiving Long Term Disability (LTD) benefits are receiving a correction for the improper manner in which Delta applied variable increases to the lump sum related offset to LTD benefits. The answers to these Frequently Asked Questions will explain the problem and identify the group of pilots who are impacted.

1. Why are there offsets to LTD benefits?

The Delta Pilots Disability and Survivorship (D&S) Plan specifies that Delta retirement benefits paid to pilots from Delta Pilot Retirement Plans reduce LTD benefit payments on a dollar for dollar basis. This reduction is referred to as the “*offset to LTD benefits*”.

2. What retirement benefits are included in the offset to LTD benefits?

Generally there are three possible offsets (reductions) to LTD benefits for disabled pilots who were removed from the Delta pilot seniority list on or before June 1, 2006.

- A. The retirement benefit upon which a lump sum distribution was paid from the Delta Pilots Retirement Plan.
- B. The actuarial equivalent of the lump sum distribution from the Money Pension Purchase Plan. This actuarial equivalent is the annuity amount that the pilot would have received if he elected an annuity benefit from the Money Pension Purchase Plan rather than a cash payout.
- C. The gross benefit that is paid by the PBGC (because benefits from the terminated Delta Pilots Retirement Plan are paid by the PBGC).

3. Which one of the above mentioned offsets created the variable increase error?

The error was created when Delta applied variable increases to the offset defined in of the answer question #2.A above.

4. What was the cause of the error?

Before 1989, Delta pilot retirement benefits were paid solely as annuities, one of which was a variable annuity that could increase over time. When the variable annuity increased, the increased amount of that variable annuity was an appropriate *offset to LTD benefits* because pilots actually received the variable benefit increase in his retirement benefits.

In 1989, the Delta Pilot Retirement Plan was altered to allow pilots to elect a lump sum distribution (in lieu of a variable annuity) on one half of the retirement benefit. When pilots elected the lump sum distribution, they forever gave up the right to receive variable increases in the retirement annuity benefit. Accordingly, the amount of *offset to LTD benefits* for the lump sum distribution should be fixed at the amount used in the calculation at the time of retirement. Unfortunately, it appears that Delta continued to apply variable increases to the *offset to LTD benefits* as if the pilot had elected and received the variable annuity. This application of a theoretical variable increase was **incorrect**.

5. How was the variable increase error discovered?

The Delta Disabled Pilots and Survivors Association (DDPSA) discovered the error and presented arguments through ALPA to Delta to correct this problem. Delta now agrees with DDPSA's interpretation of the D&S Plan in this regard.

6. Is the error common among all retired disabled pilots who elected a lump sum distribution from the Delta Pilots Retirement Plan?

No. The error appears to impact pilots as indicated below based upon the date of retirement.

- Disabled pilots who retired before April 2000 and received a lump sum distribution from the retirement plan may be eligible for the correction of this error.
- Disabled pilots who retired between April 1, 2000 and March 31, 2003 generally were **not** subjected to this error because the variable annuity amount upon their date of retirement was higher than subsequent variable annuity amounts up until the date that the retirement plan was terminated. Accordingly, variable increases probably were not applied to their lump sum related *offset to LTD benefits*.
- Disabled pilots who retired between April 1, 2003 and March 31, 2006, and received a lump sum distribution from the retirement plan may be eligible for a correction of this error.
- This correction should **not** be applicable to disabled pilots who retired on or after April 1, 2006.

7. Can you provide an example of the variable increase error?

Yes. The following theoretical example may help provide a better understanding of the problem. If a pilot receiving LTD benefits retired in June 2004 at age 60 with over 25 years of Delta service and final average earnings for retirement purposes of \$20,000 per month, his total retirement benefit in an annuity form would have been \$12,000. He was eligible to receive a lump sum distribution on \$6,000 of that benefit. The lump sum related *offset to LTD benefits* should have remained at \$6,000 per month. However, Delta apparently applied variable increases to that \$6,000 *offset to LTD benefits*.

The mechanism of applying variable increases required a conversion to “*variable benefit units*” as of the date of retirement. In this case, the *variable benefit unit* value in June 2004 was \$33.68. The figure of \$6,000 divided by \$33.68 created 178.15 *variable benefit units*.

In April 2005, the *variable benefit unit* value increased to \$33.78. The number of benefit units was multiplied by the *variable benefit unit* value (178.15 X \$33.78 = \$6,017.81) thereby increasing the lump sum related *offset to LTD benefits* to \$6,017.81. This reduction to LTD benefits was \$17.81 more than it should have been under the correct interpretation of the D&S Plan.

In April 2006, the *variable benefit unit* value increased to \$34.29. After multiplying the number of benefit units by the *variable benefit unit* value (178.15 X \$34.29 = \$6,108.67), the lump sum related *offset to LTD benefits* was increased to \$6,108.67. This reduction to LTD benefits was \$108.67 more than it should have been under the correct interpretation of the D&S Plan.

The *variable benefit unit* value for the retirement plan was frozen at \$34.29 when the retirement plan was terminated in September 2006. In this example, monthly LTD benefits were reduced by \$17.81 more than they should have been from April 2005 through March 2006 and \$108.67 more than they should have been from April 2006 until the date of correction of the error. Payment to the pilot of more than \$12,000 (before income tax withholding) would be required to correct this error through August 2015. Correcting the error also would increase the pilot's future monthly LTD benefit payments by \$108.67.

8. *How are the errors being corrected?*

The current review of LTD benefits by a third party task force is providing the opportunity for the errors to be corrected.

9. *Is the error relating to social security offsets to LTD benefits being corrected in the third party review of the D&S Plan?*

Yes. DDPSA's activities in discovering of this error, as well as the error relating to the social security offset to LTD benefits, appear to have been instrumental in getting Delta to initiate the thorough review of LTD benefits that currently is being performed by a third party task force. Frequently asked questions about the correction of the Social Security offset error are posted on the DDPSA website, Disability Page, fifth paragraph.

10. *When will the errors be corrected?*

The thorough review of the D&S Plan by a third party is time consuming. Approximately 40 pilots are receiving a correction at the end of each month. The process should continue at that rate until the audit is completed.

11. *Why has Delta asked for my PBGC worksheet?*

As stated in the answer to question #2, the benefit paid by the PBGC reduces the LTD benefit. Accordingly the review requires input of information about PBGC benefits. Delta has requested pilots to either forward the PBGC benefit worksheet to Delta or authorize Delta to obtain it from the PBGC.

12. *If I sent my PBGC worksheet to Delta or authorized Delta to obtain it, can I check the process of my correction?*

There does not appear to be a convenient manner to check on the progress of your correction. However, you can check your pay on Delta Extranet website (www.dlnet.delta.com) at the end of each month to see if a manual check has been processed through the payroll department. If a manual check has been processed, the payment should be sent to you shortly via UPS (no signature required). The Employee Service Center (ESC) is supposed to give pilots advanced telephone notification of the sending of the checks.

To check the paystubs on the Delta Extranet website, use the following process **Employee Info, Self Service, My Pay & Taxes, View, My Pay**, then, under **Pay Information** select the year and look for a Manual Check.

13. *Will survivors of deceased pilots receive the correction that the deceased pilot should have received?*

Delta has indicated that any LTD benefit corrections that are discovered for deceased pilots will be paid to their survivors.

As a final note, DDPSA is monitoring this situation as closely as possible in an attempt to ensure that our LTD Pilots and their Survivors receive all of the benefits to which they are entitled.

Although the information in these FAQ's is believed to be accurate, it is not guaranteed to be accurate. Benefit corrections are not guaranteed and may vary based upon the pilot's date of retirement, offsets that were applied to his benefits, whether or not the pilot kept Delta fully informed about changes to his PBGC benefits and other factors.