Retirement Education and Research

a publication of the FDX MEC Negotiating Committee

Retirement Education and Research Q&A 3/13/18

Q. Why did you go to the company to renegotiate our retirement plan without first taking a membership vote?

> **A.** No one has gone to the company to negotiate anything. An informational meeting to introduce a plan concept that would significantly improve our retirements was held with company finance and actuarial experts so that they can do their due diligence and determine if they are interested in bargaining. Over the next few months, we will do the same thing with the crew force and at some point in the future we will determine if we as a group wish to enter into bargaining. We still have a long way to go. I believe once you have a grasp of the plan design you will appreciate the increased value and security it could create for us. I ask that you be patient and consider the facts once you have them. Sorry if this prospect is disturbing , but if we have a chance to improve our retirements, the MEC unanimously believes we should pursue it. That being said, we are a long way from bargaining with the support of the pilot group.

Q. What effect does prior court ordered Mercer QDRO with regard to our divorced crew members and ex spouse entitlements upon retirement?

> **A.** The creation of a new retirement plan should have no impact on an existing qualified domestic relations order (QDRO). Typically, a QDRO divides the retirement plan benefits between the two divorcing parties, based on the number of years of the marriage. Because the divorce is final, benefits earned after the marriage would not usually be covered by the QDRO. Additionally, since the new variable plan did not exist at the time of the divorce and QDRO, it would not fall within the QDRO because a QDRO must specify the name of the plan subject to the order.

Q. I'm struggling to find any details on what is actually being proposed for a new retirement system. Where can I find details on this? I find it interesting that there is very little known about this proposal, yet the negotiating committee has been authorized to talk to the company. Not allowing the people you serve know the details before you go to the company only generates miss trust. I'm sure it is just that

I am not looking in the right place, but I would feel better if I could actually see the details the proposal.

> **A.** The current project underway has involved an extremely significant analysis of our current retirement benefits and the research and development of an alternative plan to improve our Defined Benefit Plan. There is currently no negotiation on Sec 28. Prior to any negotiation with FDX, pilots will be extensively educated on the proposed new plan design. To go forward with this proposal, FedEx and the MEC will need to agree to enter into a formal negotiation, at which point the pilots will be notified. A project of this size is impossible to present all of the information to all of the stake holders simultaneously and requires a very sequential set of steps. Please be patient as we manage our way through and perform our due diligence.

Q. Over 200 of us will be making a decision to give notice of retirement this December. Many of us will be retiring 3-4 years early like myself. We need to have the knowledge that you have on what will be the best possible scenario we could expect from this new proposal for our particular circumstance. Please don't hoard information like what happens in contract negotiations. Tell us what we are asking Management to buy off on.

> **A.** The current retirement project being studied by the MEC has involved an extremely significant analysis of our current retirement benefits and the research and development of an alternative plan to improve our retirement benefits. There is currently no negotiation on Sec 28. To go forward with this proposal, FedEx and the MEC will need to agree to enter into a formal negotiation, at which point the pilots will be notified. It is nearly impossible to predict the speed at which a project like this might be completed. It is highly unlikely that any changes to the retirement package would be effective within the next calendar year. Please be patient as we manage our way through and perform our due diligence. Those pilot making decisions this December to retire should base your decision on the current FDX retirement package.

Q. What other "models" (if any) did the MEC consider/research before deciding on the Variable Benefit Model?

There is unrest (once again) in the membership that we are not being included as promised in the decision-making process. Some thought that the membership would be the ones deciding which model we preferred & moved forward with… not the MEC "unilaterally" choosing.

> **A.** The current project underway has involved an extremely significant analysis of our current retirement benefits and the research and development of an alternative plan to

improve the FDX pilot retirement package. Part of that research brought forward the "Variable Plan Design". There are a number of different options under the variable plans in general. Two of those designs are the Variable Benefit Model and the Variable Accrual Model. Within those two types of models there are significant design options that our SME's and consultants needed to wade through and present to the MEC. A decision was made by the MEC to focus on one particular model at this point in order to simplify the process and allow a more focused approach. The MEC did not rule out the Variable Accrual Model, but instead is just focusing the effort on the Variable Benefit Model at this time.

Please keep in mind that there is currently no Section 28 negotiations. To go forward with this proposal, FedEx and the MEC will need to agree to enter into a formal negotiation, at which point the pilots will be notified and educated on the proposal. A project of this size is impossible to present all of the information to all of the stake holders simultaneously and requires a very sequential set of steps. Please be patient as we manage our way through and perform our due diligence.

Q. What is the future plan regarding our current "A" defined fund elimination and replacement from the company's side? Will I not receive it when I retire in a few years or so?

A. The current examination of our "A-Plan" has involved a significant analysis and continues with research and development to improve that benefit. Federal law prohibits any plan amendment that results in the reduction or elimination of benefits that have already accrued. The only way in which you would not receive your full accrued benefit would be through a distress plan termination and takeover of the plan by the Pension Benefit Guaranty Corporation (PBGC). This is highly unlikely based on the current financial condition of FDX. Once retired, if you have accrued benefit under both plans, you will receive checks from both plans. Nothing can or will be taken away from you.

Q. I am planning to retire in 2020. Is my retirement package/ benefits at risk under the "Variable Benefit Plan model"?

A. Your current retirement benefits are not at risk under a Variable Benefit Model. We are not currently in negotiations with the Company; we are only in the research and development phase of this project, which involves analyzing your current benefit and examining ways to improve that benefit. The benefits you have already accrued under the current FDX Pension Plan are not at risk if the Variable Benefit Plan is created. The "anti-cutback" rule under federal law prohibits any plan amendment that results in the reduction in the value of any accrued benefit. Nothing can or will be taken away from you.

Q. If we proceed with changing our retirement, will considerations be made for those close to retirement in regards to the 1 year declaration of your retirement date to receive the bonuses? My concern is for those that have declared their retirement date or will do so soon (must do so 1+ years in advance), then find out a better retirement option is definitely in the works and now have to change their retirement date to wait for the new retirement plan and now the date change cancels their 2 bonuses. Thank you.

> **A.** At the present time we are still in the research and development stage and it would be premature to assume that this will lead to a formal negotiation. However, if that were to occur, we don't intend on altering the terms of the early notice under Section 28F. (End of Career Sick Leave/Advance Notice of Planned Retirement Bonus). In the event of a negotiated agreement, this issue will require attention due to the impact on pilots that may have provided early notice to retire and have not reached mandatory retirement age. It is nearly impossible to predict the speed at which a project like this might be completed. It is highly unlikely that any changes to the retirement package would be effective within the next calendar year.

Q. When this change passes, can there be a 90-day waiting period-before implementation-that would give pilots time to "opt out" of the change by retiring before it goes into effect?

> **A.** Any proposed plan change will provide sufficient notice for pilots who wish to retire to do so under the existing Defined Benefit Plan. Plan transition issues, such as a choice to remain in the legacy plan are under consideration and would be known before pilots would be asked to ratify any agreement.

Q. Will the new proposed plan have a guaranteed benefit floor, i.e.., $130,000 per year for life provided FedEx stays in business, and if so, how is that benefit guaranteed?

> **A.** One of many options available in a Variable Benefit Plan design is a 'floor benefit' that ensures benefits never fall below a stated level. The benefit accruals under the proposed variable plan would target a minimum accrual that matches the current accrual under the Defined Benefit Plan, with a floor benefit or stabilization reserve to protect pilots from benefit volatility. The addition of this feature would need to be negotiated as part of any plan transition proposal.

Q. Who will manage the new plan, FedEx, or some other entity?

> **A.** FedEx will be the plan sponsor and plan administrator of the variable plan, as it is now with the Defined Benefit Plan. We envision that trust management and investment management decisions will be made by a joint ALPA-FedEx fiduciary board. Since a Variable Benefit Pension Plan shifts investment risk to the participants, it is important that the new variable plan provide ALPA with joint and equal governance with FedEx. ALPA will not be the plan administrator or plan sponsor of the variable plan. ALPA will not make investment decisions for the trust, but will instead work with FedEx in the selection of professional fund management in order to maximize fund earning potential and manage costs.

Q. Will the MEC post their proposal to the company on the website immediately after meeting with the company so that the membership can see the proposal?

> **A.** The initial conceptual presentations were made to management on October 31, 2017. The presentations were consolidated into one document and provided to the membership along with a narrated briefing that highlights the key concepts presented to FedEx. Certain aspects contain information which is proprietary to FedEx Corporation and subject to confidentiality agreements. That information will not be published.

Q. There has been very little information put out about the risks to variable benefit plan and the only sources of information discussed come from experts who endorse this type of plan. When will the membership receive information from sources that may oppose this type of plan and their reasons for doing so?

> **A.** The primary added risk associated with a transition from our current, traditional Defined Benefit Plan is the addition of market or investment risk for plan participants. Other risks, such as bankruptcy risk and the risks associated with insufficient or volatile funding requirements are minimized by plan design. Longevity risk continues to be sustained by the plan sponsor- FedEx. While Variable Defined Benefit Plans are not new, companies and labor organizations have been slow to adopt them, particularly with the current trend toward transitioning employees to Defined Contribution Plans while abandoning pension plans completely. We have developed a "Risk Matrix" that takes the major retirement plan risks, describes each one and examines how each retirement (DC, DB & VB) are impacted by those risks. The information was developed external to this project and assumes no priority or hierarchy of any retirement plan. In other words, it is an unbiased evaluation of the various risks that are widely used in the retirement planning and academic field.

Q. Can you present on this page a timeline for this retirement change proposal?

> **A.** Thank you for the input. At the current time the initial concept was provided to the company and pilot education/surveying on the proposed concept is just beginning. As those processes produce results, a timeline will be published with expected milestones related to the proposal; from MEC approval to negotiate, through negotiation, to plan implementation (if ratified).

Q. Why was the decision made to pursue the Variable Benefit Plan over the Variable Accrual Plan?

> **A.** Extensive data through the use of proprietary modeling on both plans were briefed to the MEC. This produced a very similar benefit in both plan designs. The Variable Benefit model permits either a fixed benefit at retirement, just as our current Defined Benefit Plan, or a benefit that adjusts for market conditions. The Variable Accrual only allowed for a fixed benefit at retirement. The MEC chose to focus on the Variable Benefit Plan design over the Variable Accrual due to the analysis that was offered by the SME's and the fact that it offered an individual pilot election upon retirement.

Q. I will be retiring in 2-3 years. Will this new plan have any benefit to myself and other Pilots in the same status, or is this new plan more of a long-term accrual plan?

> **A.** It is hard to predict when the new plan will be effective, since we have not yet entered into negotiations with the Company. If we are successful in negotiating the new plan, it may take additional time to make the plan operational. Assuming you have active service after the new plan is put into place, you will accrue additional pension benefits toward your overall retirement. Whatever you accrued in the current Defined Benefit Plan will be paid to you per the current contract and prior agreements. Any new benefits earned will be computed and paid separately. If you retire prior to the effective date of the new plan, you will not accrue any benefits under the new variable plan.

Q. I now have over 686 hrs in my Disability Sick Bank. Can you confirm that any excess sick hours at the end of the year is put into my retirement account up to the IRS limit, and then the remainder is paid out. Also, is the excess that is put into my retirement account taxed?

> **A.** Regular sick bank hours are added to the disability sick account at the end of the calendar year. The value of the hours that cannot be added to the disability sick account due to the 686 hour ceiling are deposited to the pilot's Employer Contribution Unused Sick Leave Account within the FedEx Pilot's Retirement Savings Plan (PRSP) per Sections 14.E. and 28.D.8 of the 2015 CBA. The employer contribution is a tax-deferred contribution, which means that you are not taxed on this amount at the time of the contribution. Dollars in excess of IRS limits (if any) are paid to the pilot in the first bid month of the following year and treated as taxable income. However, there is an active dispute concerning the contribution of the excess as a catch-up contribution when the pilot otherwise elected not to make catch-up contributions.

Q. Is the Variable Annuity going to be set up so that we will be guaranteed a minimum of $130,000 a year, regardless of stock market performance? I must say that I am more than concerned about negotiating away our A plan. Once it's gone, it's gone.

> **A.** The Variable Defined Benefit Plan is being designed with an accrual rate that targets an improved baseline benefit as compared to the current Defined Benefit Plan. Market performance of the variable pension fund will cause the accrual of benefits or the benefits themselves to rise or fall. One option to protect pilots from benefit volatility is to add a 'floor benefit' or 'stabilization reserve' to the variable plan design. A floor benefit allows the benefit to decline with market declines, but not below a pre-determined benefit level. A stabilization reserve uses investment returns above a pre-determined amount, as well as additional employer contributions, to build a reserve that shores up benefits that would otherwise decline. These features are being evaluated and may be part of the overall package offered if negotiation is authorized by the MEC.

Q. Please provide two Replacement Ratio values in future communications–One not including B plan like you did & a new second RR that includes the total retirement compensation that includes the value of our B Plan. The recent Power Point stated the value of pension deceased to 17% for new hires but that ignores the impact if our B Plan which was put in place to combat inflation losses.

> **A.** Thank you for the input. Proprietary modeling allows individual replacement ratios to be determined for both the current Defined Benefit Plan and various other plan designs including the Variable Benefit Plan. Our primary focus has been to improve the replacement ratio in any new plan design. Defined Contribution or B Plan balances certainly play a role in the total funds available to a pilot in retirement, however investment strategies, market returns, and the withdrawal rate (sometimes known as the burn rate) of a given balance make this computation difficult to generalize. We have the ability to provide individual modeling, which will be available if the project

> moves forward. This will allow a pilot to input personal data that will include B Plan information. It will also permit each pilot to fully evaluate any proposed change to the Defined Benefit Plan and its effect on the pilot's overall retirement picture.

Q. My last retirement statement said I would receive $900/month in the current plan. I project to retire in the area of approximately 50% (65,000) per year. How am I going to have time under the new plan going to make up the difference in my remaining 8 years?

> **A.** The statement you refer to recognizes the benefit available from the current plan as it pertains to your personal situation. The proposed addition of a Variable Defined Benefit will allow accumulation of benefits for each year a pilot remains in active service. The benefit accrual is being designed to target the existing $130,000 baseline that the current plan offers, subject to individual decisions related to the time of his or her retirement date. With this in mind, the accumulation of benefits will not vary significantly from the current plan, but will adjust based on market conditions that may allow a benefit to grow against inflation; something the current plan does not offer.

Q. For new hires under 5 years that are not vested in the current plan, what kind of compensation or value would there be if the new plan is implemented? In other words, do new hires forfeit anything prior to the five-year point?

> **A.** We envision vesting for purposes of the current Defined Benefit Plan and the proposed variable plan being based on your total years of service with FedEx. The variable plan design under consideration will count your years of service prior to the effective date of the new plan for purposes of vesting. Benefits accrued under the existing Defined Benefit Plan prior to five years of service will result in a small benefit from the Defined Benefit Plan. The majority of a new hire pilot's benefit accruals will be earned under the new variable plan. The plan transition is designed to make the vesting seamless between the existing and future plans.

Q. With individuals over the 25yr svc and High five could expect a 130k What would be the payout if plan is implemented and you retire within a year? Is the key the amount of money the plan starts out with you talk about the MLB they have 2.9 billion in fund and around 3500 players that would be big! how will the distribution be calculated and will it start with at least 130k for those who reached gates? I what to know the Cons with this plan i.e. stock market crash, company goes under, isn't this a dollar cost averaging?

> **A.** A pilot who already has accrued 25 years of service and a Final Average Earnings at or above $260,000 will receive the contractual $130,000 benefit (plus possible multiplier increases or 'bumps' if eligible) from the existing Defined Benefit Plan, regardless of whether a new plan is implemented. Active service after a variable plan is implemented will result in additional accrued benefits, even with a maximum accrued benefit under the existing Defined Benefit Plan.
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> The accrual and distribution of benefits under a Variable Benefit Plan are negotiated plan design features and could include a flat dollar formula (similar to a feature found in the current Defined Benefit Plan) or be based on career average earnings (which would be subject to IRS limitations).
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> One of the disadvantages of a Variable Defined Benefit Plan is the possibility that accruals or benefits will decline as a result of poor market returns. Our intention is to reduce or eliminate this benefit volatility by negotiating plan features that mitigate or stabilize the benefits. These mitigating strategies include risk pooling, conservative investment fund management, and the inclusion of a floor benefit or stabilization reserve.

Q. You don't have to login to read the retirement proposal or Q&A why would we let anyone read this?

> **A.** The information is freely available in the interest of fostering open lines of communication and permitting pilots and spouses the opportunity to read and analyze information as soon as it is available. When information of a strategic nature is provided, an ALPA login will be required to view the information.

Q. Would the VBP have a survivor benefit?

> **A.** The Employee Retirement Income Security Act (ERISA) requires that defined benefit pension plans provide benefits to surviving spouses. In order to waive the survivor benefit, a spouse's consent is required.

Q. In the video, it was stated that you used a standard pilot progression to come up with yearly income. What is that standard pilot progression? If you change how someone's retirement benefit is calculated, and that benefit is largely impacted by their pay progression, how will that change the former standard progression which may have been largely influenced by the fact that you only had to get a high five average in income?

> **A.** Standard pilot progression is a concept taken directly from FedEx's own actuarial reports. In computing the accumulation of benefits in the existing plan, the FedEx actuaries make a mathematical estimate of an average career progression. Our computations and modeling are based on the information FedEx provided without

> adulteration. It is a reasonable assumption that the standard career progression will be changed with a fundamental modification to the way pension benefits are computed, however forecasting that is difficult. If this project moves forward to negotiation, an agreement between FedEx and the Association will be needed on a pilot's career progression and an 'average' career progression. The objective is to provide the same level of baseline or floor benefit guarantee to pilots at the "normal retirement age" of 60 which is expected under the existing plan. Pilots who continue to fly beyond 25 years of service would receive additional accruals; something not available in the existing plan.

Q. In the video, you were able to use a hurdle rate of 5% for every year after 2016, but you never stated what percentage of the payroll that FedEx would have to invest to get the retirement benefit you came up with. What percentage of the pilot income were you using?

> **A.** Our actuaries determined a percentage of contribution that would support the design and is for illustrative purposes only and does not constitute an agreed upon goal, objective, minimum, or maximum funding level. Regardless of the sample provided, we are not able to share that data point publicly so that we don't undermine our position in any potential negotiation. It is important to keep in mind that in order for the pilots to agree to minimize the company's pension funding variability and to assume investment risk, a risk premium is appropriate over and above the current level of pension funding.

Q. The way that this plan is being presented seems to encourage pilots to work extra and to work until the regulated age in order to increase their retirement, is that what the MEC is now promoting?

> **A.** From our own survey results and data, we know that the average pilot retires between the 'normal retirement age' of 60 and the 'regulated age' of 65; most commonly 63 or 64 years of age. Very few pilots retire before age 60. Because the new plan will allow a pilot to earn benefits for every year worked (without an artificial CBA earnings cap or a Years-Of-Service cap), a pilot will have the ability to accrue a benefit that exceeds the current rate of accrual in the existing plan, thereby potentially earning a greater benefit sooner in a career. Demographic information and pilot behavior are difficult to isolate when a change of this magnitude is proposed, however the goal continues to be to permit a pilot to decide when to retire as a matter of personal choice.

Q. The video also showed that a pilot hired at age 35 today would get a benefit of $171,000 in retirement income if he retired at age 60. In that same slide, it was shown that the pilot would earn about $606,000 their final year. That retirement benefit is only 28% of the pilots final earnings. Weren't we trying to get 50% of final earnings? How much would it cost the company to increase the benefit by $40,000 a year over a period of time such that the DB would be worth $170,000 in 25 years as presented in the video?

> **A.** Maintaining a replacement ratio of 50% (defined as retirement plan proceeds divided by final earnings) is an enviable goal in retirement planning. Importantly, we have examined how the unchanged A-Plan will decrease from the replacement ratio of approximately 45% for current pilots to just under 20% replacement ratio for new FedEx pilots hired today. The new plan design takes a large step in stopping that downward

> trend. It's also important to note that our current combined retirement plans (DB and DC), produce a replacement ratio in excess of the 50%, but can vary widely depending on age of hire, seat progression and age at retirement, not to mention personal investment choices in the Defined Contribution plan.
> Specific costing data related to company contributions as they pertain to the new plan remains protected information at the current time and cannot be publicly disclosed.

Q. If my retirement benefit is going to be based on total earnings over my career, is there going to be better tracking and transparency of the draft and volunteer system? I never get called for draft even though my preference says to call me and I know pilots that draft a couple times a month. If I'm not given the same opportunity to earn extra, isn't my retirement benefit effected by that?

> **A.** Thank you for this comment. Since draft and volunteer proceeds are considered pensionable earnings, they would be included in the computation of benefits. Your input will be included in both the consideration of any plan design options as well as Section 6 negotiations related to changes to the draft and volunteer system.

Q. What happens to retirement benefit calculations if I have to go out on long term disability? Currently, if I have a high five, I can still retire at age 60 with full benefits.

> **A.** The long-term disability computations will experience no material change from the existing system. Pilots will continue to accrue benefits based on an established pay average imputed every year the pilot remains on the seniority list. No proposal has been considered that would raise the normal retirement age above 60. The specifics of plan design have not been finalized and long-term disability is a vital component of any proposal. The goal of this project continues to emphasize that no pilot loses any promised benefit under the existing plan.

Q. What other plans were looked at? What were the pro's and con's of each of the plans, including the VB plan being looked at, compared to each other?

> **A.** 1. Make no changes to the current plan

- Pros: Known accrual, known benefit, no negotiation required, PBGC-covered qualified plan
- Cons: Inflation wear away, does not keep up with salary increases, declining replacement ratio, cumbersome and volatile pension funding requirements make improvements unlikely

> 2. Increase the cap(s) in the current plan

- Pros: Increases to our known accrual rate and benefit, PBGC-covered qualified plan
- Cons: Substantial and lengthy negotiation, unlikely success outside of Section 6, well-known company intransigence, poor negotiation success in prior negotiations

> 3. All Defined Contribution Plan with 'cash over cap'

- Pros: Known contribution rate, individual controls his/her own financial success or failure, not tied to company performance, qualified plan
- Cons: Limited earnings space related to the 415(c) restrictions as our earnings climb, all investment risk placed on the individual, possibility of outliving assets, loss of retirement plan diversification (combined DC and DB plans), no PBGC protection

4. Equity compensation/stock options/profit sharing

- Pros: Additional investment return potential, individually managed
- Cons: Most often tied to successful company performance, non-qualified plans, no PBGC protection, income tax implications

5. Variable Defined Benefit Plan

- Pros: No years of service caps, based on Career Average Earnings not Final Average Earnings, qualified pension plan, PBGC protections, professionally managed investments, floor benefit feature, pilot input on plan administration and governance, remains fully funded in all market conditions
- Cons: Participant bears investment risk subject to hurdle rate, changes to pilot demographic behavior related to retirement age, encourages higher annual earnings (up to the IRS annual limits), may increase pilot productivity, hard/soft freeze to existing plan