

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

Northwest Airlines, Inc.,

Civil File No. 07-4803 (JNE/JJG)

Plaintiff,

and

Air Line Pilots Association,

Intervening Plaintiff,

v.

Michael Tanksley, Raymond B.
Phillips, Belmont Beck, Platt Hubbell,
Timothy I. Meldahl, Gregory S.
Novotny, William J. Riley, and Ralph
C. Taylor, Individually, and as
Representatives of Persons Similarly
Situated,

DECLARATION OF IAN ALTMAN IN
SUPPORT OF DEFENDANTS/
COUNTERCLAIMANTS'
OPPOSITION TO PLAINTIFFS'
MOTIONS FOR JUDGMENT ON THE
PLEADINGS AND MOTIONS FOR
SUMMARY JUDGMENT

Defendants.

Michael Tanksley, Raymond B.
Phillips, Belmont Beck, Platt Hubbell,
Timothy I. Meldahl, Gregory S.
Novotny, William J. Riley and Ralph
C. Taylor, Individually, and as
Representatives of Persons Similarly
Situated,

Counterclaimants,

v.

Northwest Airlines, Inc., and Air Line
Pilots Association,

Plaintiffs.

Declaration of Ian H. Altman

Ian H. Altman declares under penalty of perjury as follows:

1. I am the co-founder and managing principal of Altman & Cronin Benefit Consultants, LLC, which provides actuarial and consulting services to benefit plan sponsors. Prior to founding Altman & Cronin in 1996, I was the Retirement Practice Leader in San Francisco for William M. Mercer, Inc. Mercer is the world's largest human resource consulting firm.
2. I received a bachelor of arts with honors in mathematics and economics from Yale University. I am a Fellow of the Society of Actuaries, and an Enrolled Actuary under ERISA. I have served as advisor to employers and employee groups for 29 years, consulting on matters pertaining to the design of defined benefit and defined contribution (including money purchase) plans, including on issues related to age discrimination under these plans.
3. I was retained in October, 2008 by Lewis, Feinberg, Lee, Renaker & Jackson on behalf of the Counterclaimants to evaluate whether the new Northwest money purchase plan ceases or reduces allocations because of age. I have formulated the opinions stated herein based on my review of Plan documents, individual participant records, and communication pieces that I understand to have been distributed by the Plaintiffs.
4. Northwest Airlines froze benefit accruals under the Northwest Airlines Pension Plan for Pilot Employees ('the Frozen Plan') in 2006, and adopted The Northwest Airlines Money Purchase Plan for Pilot Employees ('the Plan') effective 1/1/2008 retroactive to 12/1/07. The contributions under the Plan are determined by calculating a target benefit for each participant, and then reducing the target by the benefits accrued under the Frozen Plan. Because of the design of the Plan, and several specific

characteristics of its operation, I determined that 2,175 pilots will end up without any Plan contributions in 2008, and many others will end up with very small Plan contributions. The preponderance of the “no-contribution” and “small-contribution” employees are older, as shown in paragraph 6 below.

5. In studying the results of this plan design, I examined the projected dollar amount of contribution for 2008 and divided by projected 2008 compensation (both set forth in documents that have been produced in this lawsuit) to determine the contribution rate as a percent of payroll for each participant. I found a wide disparity of results, including many circumstances where allocations to employees’ accounts ceased or were reduced because of age.

6. Of the total of 4,399 pilots for whom we were given complete data, there were 2,175 who have zero contribution under the Plan in 2008. This equals 49.4% of all pilots. The heavy concentration of these “no contribution” pilots are over age 40, as demonstrated in the following table:

Age	Total #	# w/ No Ctrb.	% w/ No Ctrb.
Under 40	100	0	0%
Over 40	4,299	2,175	51%

Greater detail about which older pilots have no contributions projected for 2008 can be seen on the following table:

Age	Total #	# w/ No Ctrb.	% w/ No Ctrb.
Under 40	100	0	0%
40 - 44	613	0	0%
45 - 49	1,079	219	20%
50 - 54	1,477	994	67%
55 - 59	992	824	83%
60 +	138	138	100%

The fact that the heavy concentration of older pilots receives no contributions under the new Plan does not in and of itself prove that the allocations ceased or were reduced because of age. However, in conjunction with other facts discussed below, the overwhelming statistics in the tables above support the conclusion that the Plan ceases or reduces allocations because of age.

7. The Age Discrimination in Employment Act ('ADEA') allows cessation or reduction in benefits due to total benefit caps and service caps. Benefits under the Plan are not limited by total benefit caps, since the benefits provided under the Plan are not close to the IRS maximum benefits allowable under an ERISA plan.

8. In terms of service caps, the Plan does limit service to 25 years. However, when I examined participants with far less than 25 years of service, I found evidence of ceased or reduced allocations because of age. Exhibit 1 is a copy of a document that I believe was produced by ALPA that displayed the "average annual contribution" for participants,

varied by age and service. As the age of participants increases, the average contribution rises for a while, and then falls sharply as age grows. For example, for employees with 9 years of service, the average annual contribution peaks at age 46 at \$17,700 per year. From that point on, the average contribution declines. At age 48 with 9 years of service the annual contribution drops to \$16,700, at age 52 with 9 years the annual contribution drops to \$12,500 and so forth until there is no contribution on average starting at age 58. Since these averages are for pilots well below the 25 year service cap, and they are not subject to a total benefit cap, this is evidence that the Plan produces allocations that cease or reduce because of age.

9. With access to individual participant data, I provided specific examples of participants' contribution rates that are as or more compelling than the average results shown above. The following data is extracted from actual participant records provided by the Plaintiffs and produced in this case. It shows a sharp decline in contribution rates for specific older versus younger participants with the same amount of service (and does not even reflect the oldest pilots who get no contribution).

Employee #	Age	Service	2008 Pay	2008 Ctrb.	% of Pay
██████████	38	13	\$98,000	\$14,424	14.71%
██████████	39	13	\$105,000	\$15,614	14.82%
██████████	40	13	\$118,000	\$14,921	12.70%
██████████	50	13	\$118,000	\$11,803	10.04%
██████████	54	13	\$118,000	\$9,546	8.05%
██████████	57	13	\$118,000	\$6,564	5.59%
██████████	58	13	\$105,000	\$1,914	1.82%

The participants shown above are specific individuals selected to demonstrate the vagaries of the Plan's operation. Similar comparisons could be made with other individuals that would demonstrate different results. However, this table shows that there are participants where the allocation amount is sharply reduced as age increases, with all else being held constant.

10. There are specific elements of the Plan's design and operation that account at least in part for contribution rates ceasing or declining because of age. One such feature is the method of projecting final average earnings, which is called "stovepiping". As the name implies, this technique projects significant salary growth for younger employees, but the rate of growth flattens out for older employees.

11. Stovepiping begins by identifying a pilot's aircraft position as of 1/1/2007 and their length of service at that time, and determining a pay rate based on those factors. Then, that pay rate is increased as the pilot is projected to move up in aircraft over the number of years between the pilot's actual age at the end of 2007 and age 60. Also, pay rates are escalated by a COLA factor for each year between the pilot's actual age at the end of 2007 and age 60. The pay rates from the table with subsequent adjustments are used to project the final average earnings for each pilot, which is used to calculate the Plan's funding target that in turn drives participant allocations.

12. The stovepiping model escalates projected final average earnings directly as a consequence of how many remaining years a pilot will work before reaching age 60. As a result, the pilots' projected final average earnings systematically increase as we look at younger pilots. Older pilots get relatively lower projected earnings, and therefore lower targeted funding and contributions. This directly translates into providing allocations that reduce or cease because of age.

13. Another important element is that the stovepiping method produces a projected final average earnings figure that is not adjusted for actual earnings. To the extent that employees earn more than the model indicates (due to extra flying, greater than assumed international override, higher than expected pay increases due to airline merger, etc.), no adjustment is made. If adjustments were made, it would benefit older pilots most, because raising their final average earnings would raise their gross and possibly their net benefit, converting them from “no contribution” participants into participants who do receive a contribution.

14. Finally, the stovepiping model only factors in employment to age 60. Today, there is no mandatory retirement until age 65, and at least some pilots will work beyond age 60. These pilots will therefore get increased pay due to moving up in aircraft and/or due to COLA for up to 5 additional years. Like the point in paragraph 13, this adjustment could switch certain older pilots from being “no contribution” participants to being in the category of those receiving contributions.

15. There is another structural element of the Plan which results in allocations ceasing or declining because of age; the method of dividing the total target contribution into annual installments. The Plan calls for this allocation to be made as a level dollar amount, rather than as a level percent of pay. Older employees have relatively few (and smaller) projected pay increases remaining, but younger employees have many years of increases ahead. As a result, allocating contributions as a level dollar amount front-loads the contributions substantially for younger pilots as compared to older pilots. If the allocation was calculated as a level percent of pay, a substantially greater percentage of the total Northwest contribution would go to older pilots.

16. The analysis I have performed utilizes reliable, generally accepted actuarial principles and methodologies that I normally apply in the course of work for my clients.

This Declaration has been prepared in San Francisco, CA by the undersigned on the date indicated below.

Ian H. Altman
Ian H. Altman, FSA
Enrolled Actuary #08-3701

12/1/08
Date

Exhibit 1

2008 MP3 Average Annual Contribution (Dollars)

Age	Years of Service (YOS)																										
	<1	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25+	
31																											
32			6700																								
33			6700																								
34			7200																								
35			7800																								
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(Enter chart with age and year of service as of 01/01/2008)