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UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:

DELTA AIR LINES, INC., et al.

Debtors.

Chapter 11 Case No.

05-17923 (PCB)

Jointly Administered

**REPLY DECLARATION OF MITCHELL I. SEROTA
IN SUPPORT OF 1114 COMMITTEE'S REPLY MEMORANDUM IN SUPPORT OF
ITS MOTION TO ENFORCE DEBTOR'S SECTION 1114 OBLIGATIONS**

I, MITCHELL I. SEROTA., hereby declare:

1. I am Mitchell I. Serota, President of Mitchell I. Serota & Associates, Inc. of Skokie, Illinois. I have been retained by the Section 1114 Committee of Non-Pilot Retirees (the "Committee") to provide actuarial services in connection with their representation of Delta retirees under Section 1114. I am a Fellow of the Society of Actuaries, a Fellow of the Conference of Consulting Actuaries, and a Member of the American Academy of Actuaries. I serve as a consulting actuary and have over 25 years experience working with ERISA Retirement and Health and Welfare Plans.

2. I have reviewed the Objection and Memorandum of Law of the Debtors to the Section 1114 Committee's Motion to Enforce Section 1114 Obligations, filed with this Court on December 12, 2005 (the "Objection").

3. I noted on page 38 of Delta's Objection that Delta claims the Disability and Survivorship Trust "is not 'underfunded' and Delta has made not [sic] misstatements regarding its funding status." According to Delta, "the Trust is 'overfunded' in light of Delta's funding policy," which Delta apparently adopted "well before the bankruptcy of contributing only amounts necessary to ensure that the Trust has sufficient funds to cover the current annual costs of the Plan." Objection at 38-39. I disagree with that conclusion for the reasons stated below.

4. I have reviewed Exhibit 16 to the Declaration of Kelley Torpey ("Torpey Decl.") and found only a March 17, 2005 reference to a "funding policy" for the Delta Family-Care Disability and Survivorship Trust in a letter from Towers Perrin, Delta's actuaries, to Deloitte & Touche LLP, Delta's accountants. According to Towers Perrin, Delta's "funding policy" "is to contribute an amount necessary to have sufficient assets on hand during the plan year to provide participants' benefits. In recent years, no deductible contribution has been made"

March 17, 2005 Letter from M. Sarli to M. Herbert at 1, Torpey Decl., Ex. 16B.

5. Following a written funding policy does not in and of itself make a trust fully funded.

6. Having “sufficient funds to pay claims . . . during the current year” means only that there is adequate cash on hand for the current year. This is a statement of cash flow liquidity, not of the amount of assets available to meet the accrued liabilities of the plan sponsor as set forward in the Plan and as valued by the actuary. If Delta terminates the Family-Care Disability and Survivorship Trust, there are nevertheless plan beneficiaries expecting receipt of the remaining payments for claims incurred prior to plan termination. For example, the D&S Plan provides a widow(er) with ongoing survivor benefits, not simply one year’s worth of payments. Similarly, “overfunded” speaks to the fact that assets exceed accrued liabilities, and does not address the issue of cash flow.

7. Actuaries do not characterize a trust as “fully funded” when the trust does not have sufficient assets on hand to meet the plan’s obligations which have been accrued as of the date of such a determination. Internal Revenue Code Regulation §1.412(c)(6)-1(a) provides rules relating to full funding by comparing “the accrued liability under the plan” to “the value of the plan’s assets.”

8. I believe that to call the Family-Care Disability and Survivorship Trust “fully funded” is a misuse of a commonly understood actuarial term and misleads the reader. Most saliently the last actuarial report clearly discloses that the Plan is underfunded by \$212 million. See FAS 112 Report for calendar year ending December 31, 2004, attached as Exhibit C to my December 5, 2005 Declaration filed in support of the Committee’s Motion to Enforce Section 1114.

7. Attached as Exhibit C to my December 5, 2005 Declaration is a true and correct copy of the portions of the 2004 FAS-112 Report (the “2004 FAS-112”) that Delta supplied to the attorneys for the Committee and me. The 2004 FAS-112 is an Actuarial Valuation Report conforming to Statement of Financial Accounting Standards No.112 for the fiscal year regarding the valuation of plan assets and its obligations.

8. The February 4, 2005 letter (the “Letter”) included with the 2004 FAS-112 in Exhibit C indicates that the 2004 FAS-112 was prepared by Towers Perrin HR Services

("Towers Perrin") as actuaries. There are several important aspects of the 2004 FAS-112, in light of Delta's assertion that its Delta Family-Care Disability and Survivorship Plan (the "Plan") was amended at the beginning of 2004 to permit payment of certified sick time pay and that Delta had authority to pay severance out of the Delta Family-Care Disability and Survivorship Trust (the "Trust"). Item D on page 2 of the Letter states "[t]here were no changes in either Disability & Survivorship plan or the Delta Pilots Medical Plan affecting the comparability of the plans with the last actuarial valuation." If Towers Perrin had concluded that there was a change to the Plan going forward in 2004 calling for the continuing payment of certified sick time in that and subsequent years, they would have assigned a liability associated with that obligation or disclosed that they are not calculating a liability and stated a reason. They did neither.

9. There are also several telling aspects of the Towers Perrin "Exhibit A" attached to the 2004 FAS-112. First, particularly in light of the prior years' FAS-112 Reports, which I have also reviewed, it appears that Towers Perrin does not include in the Accumulated Plan Benefit Obligation at either the beginning or the end of the 2004 calendar year, any amount for certified sick time payments. This is consistent with Towers' Perrin's disclosure in the Letter that the Plan in 2004 is comparable to the plan in the preceding year. The absence of such an inclusion seems inconsistent, however, with an effective amendment of the Plan in 2004 to require payment of certified sick time payments in that and future years.

10. Second, Towers Perrin also lists "Severance Payments" and "Certified Sick Time Payments" separately from "Benefits Paid" from the Trust. The effect of this disclosure is that Towers Perrin treated disability and survivor income benefits paid by the Trust in 2004 as "Benefits" but treated severance payments and certified sick time payments not as benefits under the Trust and Plan, but rather as extraordinary payments, to be accounted for as a separate line item. I infer that Towers Perrin followed the terms of the written Plan document as it existed on December 31, 2004, rather than the amended plan that was executed September 12, 2005 and

