Are you accepting an Enhanced Retirement Program or a Voluntary Opt-Out Program Offer from Delta?

Your deadline to make this very important decision is July 13.
Now it the time to get your finances in order.

Brightworth®

Are you accepting an Enhanced Retirement Program or a Voluntary Opt-Out Program Offer from Delta?

Your deadline to make this very important decision is July 13. Now is the time to get your finances in order.

As a Delta employee who has the opportunity to accept an Enhanced Retirement Program offer or a Voluntary Opt-Out Program offer, you probably have many questions about the financial aspects of leaving Delta and how it may impact your financial future. Common questions we hear include…

- Do I have sufficient assets to provide for my retirement, or do I need to look for another job?
- Are there any strategies to help lessen the tax burden of my payout?
- Should I rollover my 401(k) or leave it where it is?
- What decisions should I make regarding health, life, and disability insurance?
- Are there other aspects of my financial life might be affected by my departure from Delta?

These and many other considerations are presented below to help you prepare for your transition from Delta. Be sure to carefully review your personalized letter from Delta explaining your transition benefits as you consider your financial planning needs. In addition to the three key areas Delta expressed were paramount to its employees - severance, medical benefits and travel - we have addressed seven other important financial areas to consider in this white paper:

#1: Cash Severance Payment

The amount of the lump sum severance payment you receive is based on your most recent hire date and your completed consecutive years of service as of December 31, 2020.

To qualify as part of the Enhanced Retirement Program, you must either:

- Have 70 or more points (combined age plus years of service) as of December 31, 2020 with a minimum of 10 years of service
- Or be age 52 or older with 10+ years of service
- Or have 25 years of service (regardless of age)

Under the Enhanced Retirement Program:

- If you worked over 10 years for Delta but less than 20 years, your severance payment is equal to 20 weeks of pay.
- If you worked over 20 years for Delta but less than 25 years, your severance payment is equal to 23 weeks of pay.
- If you worked 25 years or more for Delta, your severance payment is equal to 26 weeks of pay.

If you don't qualify for the Enhanced Retirement Program, nearly everyone else is eligible for the Voluntary Opt-Out Program. Upon this program:

- If you worked less than 2 years for Delta, you receive 4 weeks of severance.
- If you worked at least 2 years for Delta but less than 5 years, you receive 8 weeks of severance.
- If you worked at least 5 years for Delta but less than 8 years, you receive 15 weeks of severance.
- If you worked 8 years or more for Delta, then you receive 20 weeks of severance.

The severance payment will be made as a lump sum within 45 days of your separation. Federal taxes of 22% will be withheld along with any applicable state taxes. FICA taxes will be taken out of these funds as well.

Note that any outstanding debts will be netted from the severance payment, such as any accounts receivable (except for uniforms), Holidays used before working the Holiday and any borrowed Paid Personal Time.

Unused Vacation and Paid Personal Time is paid out upon your leave and is eligible for 401(k) contributions.

#2: 401(k)

Given your upcoming financial transition, it can be beneficial to fund the maximum allowable amount into your 401(k) plan ($19,500 in 2020, or $26,000 for age 50+) prior to your separation date. This is an excellent retirement savings and potential tax reduction opportunity that will soon be lost, so be sure to take advantage while you can. If you need to increase your 401(k) contributions from now until your separation date, it will result in a reduction to your take-home pay but remember that you will be receiving your cash severance payment shortly after separation which can offset some of this impact. Delta will send a reminder for the deadline to make changes to your 401(k) elections.

If you have worked at Delta for less than two years, all company contributions that otherwise would not be vested will automatically vest upon your separation.

Delta employees have the option of contributing to the 401(k) on a Traditional pre-tax basis, or to a post-tax Roth 401(k). If your contributions are not already being made entirely on a pre-tax basis, switching any remaining contributions to Traditional pre-tax is one step you can take to help reduce your taxable income this year.

After leaving Delta, you have a few options with your 401(k) plan. First, you can leave your account in the company plan as it is. It will continue to be invested in the investments you have chosen and will continue to grow on a tax-deferred or tax-free basis, depending on whether your contributions were pre-tax or Roth. You will not be required to withdraw funds from your account until you reach age 72 when the IRS requires retirement plan distributions to begin.

If you are between the ages of 55 and 59 ½ give special consideration as to whether you may need to take a withdrawal from your 401(k) plan prior to age 60. Generally, any withdrawals from a retirement account prior to age 59 ½ are subject to a 10% early withdrawal penalty. However, a special rule allows for penalty-free withdrawals from your 401(k) prior to age 59 ½ if you are at least age 55 during the calendar year that you separate from service. In some cases, it makes sense to leave some or all of your 401(k) assets in the Delta 401(k) in case access is needed prior to age 60.

A second option is to roll your 401(k) over into another company 401(k) plan, or to an IRA and/or Roth IRA. In the case of an IRA rollover, multiple checks may be issued. The first check will represent your pre-tax balance. This check should be made out to your new IRA custodian and not deposited in your personal bank account. Forward this check directly to your IRA custodian or financial advisor. If you have made post-tax Roth contributions, you will also receive a check for this balance. Again, this check should be made out to your new Roth IRA custodian and not deposited to your personal bank account. Lastly, you may receive a check for your after-tax contributions. This represents money that you already paid income tax on and deposited into your 401(k). You can either deposit this check into your Roth IRA or keep the cash and deposit to your personal bank account. At Brightworth, we counsel clients on how best to make these important decisions based on their unique circumstances.

Finally, many people are surprised to learn that assets such as 401(k)s and IRAs are not distributed at your death according to what your will says. Instead, distribution is based on the beneficiary designation you have placed on each account. Therefore, it is critical that you check the beneficiary designations on your 401(k) and IRA to ensure that the beneficiary designations are appropriate and work in concert with your overall estate plan.

#3: Pension Plan

Another element of your retirement from Delta is the commencement of your pension benefits. You can also elect to defer receiving pension benefits until a later date, or you can begin receiving monthly benefits if you are age 52 or older. For pre-merger Northwest employees with a benefit from the Northwest Airlines Pension Plan for Contract Employees or Northwest Airlines Pension Plan for Salaried Employees, the earliest commencement age is 55.

If you are eligible for benefits under the Delta Retirement Plan (generally if you began working prior to July 1, 2003), then your annuity options have a Social Security offset. This means that if you take the "FAE (Final Average Earnings) annuity option" your monthly pension will decrease the earlier of when you file for Social Security or at your Social Security "full retirement age." If you take the "FAE annuity as level income option," your monthly pension will decrease at age 62 regardless if you have filed for Social Security. Note that cost of living adjustments are not included in the calculation, so you would not be penalized for any cost of living adjustments you receive. This pension is in addition to the current Cash Balance Plan, and you must file for both benefits at the same time. See below for your options under the Cash Balance Plan.

For all others who are eligible for only the Cash Balance Plan (you started after July 1, 2003), your pension has the option for an annuity or lump sum. For the annuity, you can either choose the joint and survivor with your spouse or a single life annuity. If you choose the single life annuity, then your spouse would not receive benefits if you were to pass away. If you want your spouse to receive benefits, then you could choose the joint survivorship option with a reduced benefit. You also have the option to receive a lump sum at retirement which you can roll into an IRA without incurring taxes.

Generally speaking, the younger you are when you leave your company, the more likely taking a lump sum payout and rolling it tax-free to an IRA is a good move. It provides you control over the money, an investment horizon adequate to grow the funds, and more flexibility over when and what you use the money for in retirement. However, if you find money burns a hole in your pocket, you are worried you'll spend the pension money too fast, are extremely worried about reinvesting your pension money, and/or have longevity in your family history, electing the monthly pension when you get ready to retire could be the right move.

With regards to both when and how to receive your pension benefits, it is important to consider where your income will come from over the next several years to understand what your cash flow needs will look like. Take inventory of income sources such as other work earnings, Social Security, investment portfolio and savings withdrawals, etc. to understand where any gaps may exist in your need for income, and how your pension benefit may help to fill the gap. There are other factors to consider in your decision as well. Age, health, future work income, and how soon you will need to start living off your investment portfolio are other important considerations. At Brightworth, we build projections for our clients to help analyze what future income versus expenses will look like in retirement, where they will need to source additional income from, and how their pension benefits fit into the puzzle under different starting date scenarios.

#4: Insurance

As a fee-only wealth management firm, Brightworth does not sell insurance products. However, insurance planning is an important part of a well-designed financial plan and we consult with clients on how best to structure their insurance program. It is common that Delta employees have the bulk of their life, disability, and health insurance coverage through the Delta group plans, so it is important to understand how your separation from the company impacts your insurance coverage.

Health Care

For the Enhanced Retirement Program, Delta will provide paid medical, dental and vision premiums for you, your spouse and eligible dependent children under age 26 for up to 24 months following your separation date, or up to age 65 when you qualify for Medicare, whichever comes first. If you are 65 before the 24 months is over, Delta will provide a supplemental RMA (Retirement Medical Account) Value. See below under Retiree Medical Account for more details.

After the 24-month period, you do have the ability to elect COBRA continuation for up to 18 months.

For the Voluntary Opt-Out Program, Delta is providing you with paid medical, dental and vision premiums for you, your spouse and eligible dependent children under age 26 for up to 12 months following your retirement date. After the 12-month period, you do have the ability to elect COBRA continuation for up to 18 months.

Retiree Medical Account (only for Enhanced Retirement Program participants)

Delta will provide you with a Retiree Medical Account (RMA). The RMA is available to reimburse health care costs for you, your spouse and any eligible dependents. You have the option to use the RMA to pay for COBRA premiums or to reimburse Medicare premiums and other out of pocket expenses. These costs can be significant. Delta is providing between $100,000 and $150,000 to eligible retirees depending upon your years until Medicare eligibility.

Note that the IRS does not allow you to access RMA funds and make or receive contributions (including Delta Health Rewards) to your Health Savings Account in the same calendar year.

How much will you receive?

- If you are more than 4 years from being Medicare eligible, you will receive $150,000 in your RMA.
- If you are more than 3 years but less than or equal to 4 years away from being Medicare eligible, you will receive $140,000 in your RMA.
- If you are more than 2 years but less than or equal to 3 years away from being Medicare eligible, you will receive $130,000 in your RMA.
- If you are more than 1 year but less than or equal to 2 years away from being Medicare eligible, you will receive $120,000 in your RMA.
- If you are 1 year or less away from being Medicare eligible, you will receive $110,000 in your RMA.
- If you are already Medicare eligible, you receive $100,000 in your RMA.

If you are eligible for Medicare within the 24-month period following separation, then you will qualify for a supplemental RMA amount in lieu of health insurance coverage. You will be credited $625 for each whole month following retirement where you are Medicare eligible during that 24-month period.

Your entire RMA will be available to use within 45 days of leaving Delta. Distributions from your RMA are income tax-free.

Your RMA is a record keeping account and is not actually funded nor can it be invested. If you pass away with a balance remaining, your surviving spouse is able to continue using it. (Note that you must have been married for 1 year and your spouse must be on record with Delta.) If you do not have a spouse, then the account is closed out. Therefore, we recommend using it sooner rather than saving it.

Note also that if you are rehired by Delta, you will forfeit the entire RMA balance.

Life Insurance

The Delta provided group life, supplemental life, and AD&D life insurance ends on your separation date. You may have the option to convert your group life insurance to an individual policy after you leave Delta. Life insurance is typically most important during your working years while you are accumulating wealth to reach your long-term goals, as well as covering daily living expenses and debts. Yet as you build more wealth, your need for life insurance often declines. Run numbers with a professional to determine how much life insurance is right for you and your family. Consider the need to replace your lost income for a period of time, top off college savings, pay off the mortgage and other debts, and whether you want a larger retirement fund secured for your spouse or partner should something happen to you.

If you desire to continue your Delta life insurance coverage, you typically must apply for a conversion within 31 days after your coverage ends. It is worth exploring supplemental life insurance with an outside carrier to compare premiums and terms.

Disability Insurance

Disability coverage will be discontinued once you separate from Delta. Disability insurance replaces a portion of your income if you are unable to work for an extended period of time. For most people working in corporate America, your ability to earn an income is your greatest asset, so it should be protected. It often makes sense to have supplemental disability insurance above the basic amount your employer offers. However, if you have built enough financial resources to retire or where you don't need a paycheck coming in to meet your financial obligations, you may not need disability insurance going forward.

If you need to keep working, when you secure a new job review the disability insurance plan your employer may offer, or consider purchasing an individual policy that you can take with you regardless of your place of employment. Purchasing disability insurance with after-tax dollars is ideal, as the disability income received would be tax-free to you.

#5: Other Delta Benefits

Travel Privileges

Under the Enhanced Retirement Program and Voluntary Opt-Out Programs, eligible terminated employees receive benefits under this program. Delta expressed this was a very important program to its employees and has provided enhanced features for those accepting the Early Retirement or Opt-Out packages. Further details are described in your separation booklets.

Career Transition Support

Delta is offering to help you transition to a new career, including online workshops, resume reviews and even referrals to companies through Delta's preferred hiring partner resources. They have 20+ companies to help you find another job as part of their Employee Assistance Program. Take advantage of this resource if you decide to secure another job after leaving Delta.

#6: Investment Portfolio

The cornerstone to your long-term financial success is a well-designed and constructed investment portfolio. Your investment portfolio is critical to building and preserving wealth and should be designed to fit your cash flow needs, time horizon, risk tolerance, and tax objectives. Successful investing requires a long-term perspective and disciplined approach in order to avoid short-term, emotional mistakes. Having a coordinated and comprehensive strategic asset allocation is the foundation for your entire portfolio.

Investment Strategy

While working at Delta you may have accumulated a substantial balance in your 401(k) plan. After you leave Delta you may choose to roll these assets into an IRA where the investment choices are plentiful and offer more flexibility in designing an optimal asset allocation, and customized withdrawal strategy. While a greater number of choices is nice, it can also be overwhelming to distill such a large offering down to a viable portfolio. Different stages of life and circumstances will dictate an appropriate mix of investments, where to source cash from, and optimizing the tax situation of your portfolio will all require thorough analysis.

Brightworth offers investment management services to our clients using sound investment disciplines carefully coordinated with customized, innovative financial planning. Our ultimate objective is to enhance clients' wealth while protecting their capital over the long-term. Through ongoing monitoring and evaluation, periodic tactical shifts, and flexible managers, we are able to take advantage of opportunities and manage risks in the near terms for our clients.

#7 Taxes

While working at Delta as a W-2 employee, you have limited ways to save taxes each year, but there are a number of strategies to take advantage of. Saving in the before-tax 401(k) plan and health savings account (HSA) are often "must-do" moves. If you are heading into retirement, it will also be important to consider how your sources of income will be taxed and consider ways to even out the tax burden from withdrawals each year. A prudent and diversified withdrawal strategy should factor in taxes. Tax planning can help, as you do not want a surprise at tax filing time.

For those with children or grandchildren, college savings 529 plans are solid investment and tax savings strategies – with Georgia's Path2College Plan you can receive a state tax deduction on your contributions up to $4,000 per child (for single tax filers) and $8,000 per child (for joint tax filers). With 529 plans, the withdrawals used for qualified education expenses are tax-free.

Some states offer tax credits for film, energy and/or low-income housing, including Georgia. Purchasing these credits can lower your overall state tax bill as you buy the credits at a discount, while receiving a dollar-for-dollar credit towards your state taxes in most cases.

Finally, read on for charitable giving strategies which can help you save considerable taxes while fulfilling your charitable intent. Above all, consider working with a qualified accountant who is familiar with executive compensation strategies and can advise you on a variety of tax reduction strategies especially in big income years.

#8 Charitable Giving

If you've held stocks for a long time and you have a lot of built up gain in these shares, they could be great candidates for charitable giving. When stock is given to a charity, and the charity sells it, nobody pays capital gains tax on the sale. A terrific tool for charitable giving that has great tax advantages is a donor advised fund. This is essentially a brokerage account with a charitable wrapper around it. Cash, stocks, real estate and other appreciated assets can be transferred into the account, the assets are sold with no capital gains tax due, and the cash proceeds become available for benefitting your favorite qualified charities. You receive a tax deduction for the value of the assets the year they are transferred into the donor advised fund and can determine how much and when to gift out the assets in the account to charity. This makes for very easy tax reporting, no more keeping track of various receipts, and more control over the timing of charitable gifts for tax savings purposes.

#9 Estate Planning

Every adult needs at least a basic estate plan consisting of a will, a financial power of attorney, and a healthcare directive. These documents should be drawn up by a qualified estate attorney and reviewed at least every five years. There have been recent changes in the estate and income tax laws, and your personal and financial situation is now changing if you elect the severance package from Delta. This is a good time to review your legal documents to protect your wealth, and ensure your assets are passed on according to your wishes and in a tax-efficient manner. Remember, beneficiary designations for life insurance and retirement plans need to be coordinated with your overall financial and estate plan, and these plans are now in transition if you leave Delta.

#10 Debt

Now is the time to look at your outstanding debts. If you currently have a mortgage, it might make sense for you to look into refinancing while you still have a paycheck. Interest rates are currently low, and your cashflow may be changing after you leave Delta. Also, consider whether it makes sense to pay off your mortgage, credit cards or any other debts when you receive your severance payment. This can lower your fixed monthly expenses which gives more financial flexibility to your years ahead.

Conclusion

Understanding the mechanics of Delta's Enhanced Retirement and Voluntary Opt-Out Programs and how they integrate them into your personal financial situation is critical to make decisions as you move into the next chapter of your professional or retired life. Our team has helped numerous corporate professionals make wise financial decisions and navigate this complicated transition. We understand the process can feel overwhelming. Brightworth's team of experts are ready to assist you. We will develop a personal strategy for you to help ensure you are prepared to take full advantage of your severance package. We strive to provide you a clear understanding of your financial future and well-being, ultimately enhancing your confidence and peace of mind. Reach out to us if we can help you.

This document provides information about the Enhanced Retirement Program and Voluntary Opt-Out Program offered by Delta. This paper assumes you are not rehired by Delta. If there is any error or inconsistency between this document and the official plan documents governing the terms of the separation agreements, or any other Delta employee benefit plan or program, the official plan documents for each will govern.

Who Is Brightworth?

Brightworth is a nationally recognized, fee-only wealth management firm with offices in Atlanta, GA and Charlotte, NC. The wealth advisors at Brightworth have deep expertise across the financial disciplines, allowing us to provide ongoing, comprehensive financial advice to families across the country.

This information is provided as a guide to assist you in your financial planning. The examples are provided for illustrative purposes only and are not intended to be specific financial planning recommendations or tax advice. Please consult with a professional for specific questions regarding your particular situation.

Brightworth®

3344 Peachtree Rd, Suite 2000 | Atlanta, Georgia 30326 | 404.760.9000

brightworth.com