

Guide to PBGC Pension Benefit Determination & What to Expect During the Transition

There is a great deal of confusion about how the PBGC determines what your pension benefit will be once the PBGC takes over the pension plan. The purpose of this guide is to help you understand how the PBGC evaluates pension plans so that you understand how your pension will be evaluated and allow you to have a rough idea of what to expect from the process.

What Happens When the PBGC Takes Over a Pension Plan

When the PBGC takes over a plan they receive all of the plan's assets and liabilities. All plan assets received are allocated to a single category while the plan liabilities are assigned to priority categories that will determine how the plan assets are distributed to plan participants both current and future. There are three **P**riority **C**ategories (PC-1, PC-3, and PC-4) that are important to the Delphi salaried plans:

- PC-1 Liabilities in this category are the portion of your benefit that is attributable to your part B contributions and part B supplements. These are the highest priority category liabilities.
- PC-3 Liabilities in this category are the pension obligations for persons who have been retired for at least 3 years from the date of plan termination (7/31/09 in our case) or persons who have been eligible to retire and immediately receive a pension for 3 years (even if they are still working). This is the second highest category of liabilities
- PC-4 Liabilities in this category are the pension obligations for persons who do not meet the 3 year requirement for PC-3. These are the lowest priority category of liabilities.

The PBGC first analyzes the liabilities to determine how much total liability is in each Priority Class (PC). Once the total liability is determined the PBGC begins allocating the plan assets to the PC-1 liabilities until they are 100% covered.

The remaining plan assets after 100% of the PC-1 liabilities have been satisfied are then allocated to the PC-3 liabilities until they are 100% covered or until all assets are exhausted. If the assets only cover a portion of the PC-3 liabilities, they are allocated to all PC-3 plan participants as a percentage of the total liabilities. For example, if the assets covered 80% of the total PC-3 liabilities, plan participants falling in PC-3 would receive 80% of their prior pension amount or the guarantee amount from the 2009 Table whichever is larger.

If assets are left after 100% of the PC-1 and PC-3 liabilities have been satisfied, they are allocated in the same manner as the PC-3 assets were allocated until all assets are exhausted.

How the PBGC Calculates Pensions With Early Retirement Supplements

The PBGC does not guarantee the early retirement supplement but it does base its calculations on your pension amount at full retirement age (in the case of Delphi early retirees age 62 and 1 month). This amount is used to calculate any percentages or as the maximum you could receive from the PBGC under any condition. As previously noted, the calculations depend on a number of factors including the amount of assets, your PC situation, your age on July 31st of 2009, and the maximum guarantee.

What Will Happen With Pension Checks Immediately, Early in 2009, and Beyond

When the PBGC first take over a pension plan it takes them a while to get everything sorted out. During this transition period pension recipients will continue receiving checks from Fidelity and will not see a change in amount until the PBGC has the time to evaluate the total plan assets, plan rules, and the overall liabilities in each PC. Once that is determined they will make an initial adjustment based on their preliminary evaluation and will notify pension recipients of the change at least 30 days prior to the adjustment. That process will probably not take place until very late in 2009 or early in 2010.

When pension recipients have been notified the PBGC will begin issuing checks directly at the adjusted amount until they have done an individual evaluation of each pension recipient. Once the individual evaluations are completed (this could take 3 or more years) each pension recipient will be notified of the final adjusted pension amount and advised of the appeals process. Once appeals are resolved the adjusted amount will be paid for the remainder of the recipient's life (or reduced benefit for the surviving spouse if that option was chosen). Persons who chose the surviving spouse option for their Delphi pension will not be allowed to change it when pensions are transferred to the PBGC.

What Happens if the PBGC's Adjusted Payment Amount is Larger or Smaller Than the Final Amount

Once the final pension amount is determined and all appeals are completed, the PBGC will settle any overpayment or underpayment in the following ways:

- If the PBGC has overpaid you, they will slowly recover the overpayment by temporarily reducing your pension check by no more than 10% of the monthly pension amount until the balance is paid. You will not have to pay any interest on the repaid money
- If the PBGC has underpaid you, they will pay you the entire amount in a lump sum with interest.

Several Important Things You Need to Know Once The PBGC Begins Issuing Pension Checks

- The PBGC will only withhold Federal Taxes and court ordered pension deductions, any state or local income taxes will need to be paid by quarterly estimated tax payments
- The PBGC will not do deductions for insurance or other benefit costs. You will need to arrange some alternate means of making those payments
- There will be no gaps in monthly checks as PBGC takes over the issuance of checks. They will coordinate with Fidelity for a seamless transition

Summary

This brief overview will help current retirees to understand and anticipate how the PBGC takeover of the Delphi Salaried Pension Plans will be handled from a procedural standpoint. It also provides a basic understanding of how the PBGC evaluates plan assets and liabilities based on its rules and the rules of our pension plans.