

November 17, 1988

Fred Smith
Chief Executive Officer
Federal Express Corporation
P.O. Box 727
Memphis, Tennessee

Dear Fred:

Thanks for the lunch yesterday. It was particularly gratifying to me that we were able to discuss the many subjects we did in such a frank and open manner. From our discussion, I have a much clearer picture of your ideas for the direction of Federal Express and I hope that you understand the FAB and me better. I wish to highlight in this letter several of the issues that we did discuss.

In regard to the retirement program, the position of the FAB is that the Company concentrate its available resources for our retirement program in a defined contribution plan. Our preference is that the Company begin by refunding the current DPSP thereby taking care of the employees that have been here these past five years to help build Federal Express. If you will recall our discussion, the five years lost during the early stages of a defined contribution plan, or in our case a variable contribution plan, yield a disproportionate loss in the later stages of the plan due to the lack of compounding. The second step in our request is that we begin this year, funding a defined contribution plan and leaving the defined benefit program with COLA as it is. If, conceptually, this plan was adopted, we would then like to see projected, after the percentages have been established, a total replacement income from these two plans of approximately 60 to 65 percent with 25 years of service. As we discussed, this is industry standard.

Another topic of discussion was the early retirement program. As we discussed, studies are beginning to show that workers whose jobs require them to work on the back side of the clock develop medical problems sooner than those working traditional day shifts. An employee who spends 25 years of his career working the night shift should have some consideration for an reasonable early retirement. Most of the other airlines have also discovered that by funding a reasonable early retirement, instead of the actuarially determined one that is used by

Federal Express, they have the ability to offset their disability liability with a retirement program that is already funded. This combined with the modification to the PSLTD plan we discussed will not be an expensive change for the Company and in fact, our preliminary figures show that there is no additional cost.

I am interested in your consideration of splitting the pilots from the retirement plan and other programs where the differences in our job in relation to other employees' jobs often creates disparity in the benefit provided. My understanding is that the legal department is currently reviewing this option, and that if their recommendation was positive, you might consider this a viable plan. Please let me know your thoughts on this as more information becomes available.

A final decision on the retirement program, as you informed me, has been delayed until presentation to the Board of Directors on December 23, 1988. As we discussed, it would be helpful to me in discussing these issues with the pilots that I know your thoughts on this issue as soon as possible. My desire is that we can agree on a plan for the future and can present a united front to the pilots and the other employees.

The final issue I will recap in this letter is that dealing with the use of the MD-11 in our system. I will get with Jerry Wolfe at the earliest opportunity and discuss the implementation problems about which you expressed concern and will direct FAB attention to that subject.

Thank you for the opportunity to present our position on the issues we discussed. I also wish to recognize the efforts of Al Smith and Don Engebretsen in compiling the data we presented to you on the retirement program. Many hours of volunteer time went into the preparation and dissemination of the document.

Regards,

John W. Poag
Chairman, Flight Advisory Board

cc: Flight Advisory Board Members