



**FLIGHT ADVISORY BOARD
FEDERAL EXPRESS CORPORATION
B-727 FLIGHT OPERATIONS
MEMPHIS, TN. 38194**



March 29, 1987

Frederick W. Smith
Chairman of the Board/CEO
Federal Express Corporation
Post Office Box 727
Memphis, Tennessee 38194

Dear Fred:

The Flight Advisory Board was provided a copy of a March 22, 1989, inter-office memo from George Hearn to you and Jim Barksdale regarding the Godwins Retirement Study. We are less than pleased with the content and tone of the review conducted by Mr. Hearn with assistance from Mr. Priddy. They make four basic comments to which we will respond point by point.

With regard to the first comment, it is important to note that "hinting" had nothing to do with this matter. The Flight Advisory Board made Godwins fully aware of the non-compounding of COLA, but an error was made when the data was computerized during preparation of the report. Due to the March 20, 1989, Board of Directors meeting, we requested a maximum effort by Godwins and they did not catch their mistake until after the printing. As soon as the error was discovered, they called it to our attention and John Poag informed you of the mistake and its impact on the report rather than delay its submission. It appears that the main point of the first comment section is primarily aimed at discrediting the report while glossing over our main contention. We agree, opinions of lawyers and actuaries aside, that for the Federal Express crewmembers "the new plan does not offer a material improvement over the old plan". Please reread paragraph three of Mr. Hearn's report and reconcile its contents with those statements made to us by Mr. Priddy in the February, 10, 1989, meeting, regarding enhancements to our retirement plan.

In response to the last paragraph of the first comment, it appears that Mr. Hearn and Mr. Priddy are now willing to state that our life expectancy may not be as high as the general population. The COLA valuation used by Godwins is predicated on the 1984 Unisex Pension Mortality Table. In order for the "shifting" to be of more value, our crewmembers must die earlier than the assumptions used in the report.

We are in basic agreement with the second comment made in the memo. It should be pointed out, however, that during Godwins' presentation of their report to the Flight Advisory Board, it was made very clear that the Elgin Long case has limited impact and could pertain to only a segment of the Flying Tiger Pilot group. The Godwins summary statement is entirely correct when referenced to those pilots covered by the Variable Annuity Plan.

Comment number three assumes that Godwins and the Flight Advisory Board are privy to details about the "pay-for-performance aspect of our Retirement Plan". We have asked for, but have not yet seen, any detailed data regarding this portion of our new Pension Plan. We will be glad to evaluate this aspect of the new plan when details are provided. Godwins was aware of a proposed change; however, since we were lacking details, we requested that they use the five percent compensation number. This is the minimum percentage required throughout the career of a Federal Express pilot to align our current plans with our original programs and industry standards. At this time we have no data to substantiate that "pay-for-performance" is an alternative to the assumptions presented in the Godwins report.


The fourth comment is symbolic of the latest Company methodology used to lower the expectations of our Flight Crewmembers by attempting to draw comparisons between our crewforce and those of other air freight carriers such as Emory, Airborne, UPS, etc. To do this would be no more valid than trying to compare Delta Airlines with Continental. Our crewforce is probably the best crewforce in all of aviation. We are proud of our heritage and will stack our performance against anyone. Historically, major air carriers have been used to evaluate our pay and benefits as well as other aspects of our jobs. The Corporation granted this recognition in its most recent Retirement Plan Summary conducted last fall. As we have stated in a previous letter "with the combination of the proposed changes to the Pension Plan and current benefit programs, the rest of the Corporation attains relative benefit levels among the very best available. We now foresee a crewforce of several thousand deserving benefit levels which reward their profession in the same manner. Our goal, which is simple and has never waived, is to be perceived as worthy of and provided with airline pilot standard or equivalent programs".

In the concluding paragraph of the memo, Mr. Hearn expresses surprise at receiving this portion of the Godwins report and implies that "their services should be terminated". He obviously does not understand that this is Phase One of the Godwins Project Outline. The first phase is an evaluation of the Federal Express, the Flying Tigers and airline plans. The all important Phase Two of the project will produce a full pilot by pilot valuation of both the Federal Express and the Flying Tigers plans in order to facilitate an objective overall evaluation of the programs. We understood that you also felt that specific pilot data would aid in evaluating the effect of a one plan solution. Phase Two would be near completion at this time had Mr. Hearn fully complied with requests to authorize release of participant data to Godwins.

The Benefits Department Retirement Plan Summary states that "Federal Express' benefit level for pilots falls significantly below those available at other major air carriers". Messrs. Hearn and Priddy, Godwins, and the FAB have concluded that our old plan and new plans are essentially the same, therefore the shortcomings identified by our own company still exist. We are prepared to discuss solutions to this situation at your convenience.



John Poag
Chairman, Flight Advisory Board



Donald L. Engebretsen
Chairman, Pay and Benefits Committee
Flight Advisory Board

cc: Jim Barksdale
George Hearn
David Anderson
Karen Claiborne
Joseph McCarty, III.
Ken Masterson
Jim Perkins
Steve Priddy
Bob Burke