

American Airlines

Jeff Brundage
Senior Vice President
Human Resources

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Dear Colleague,

A few weeks ago, we outlined a business plan to emerge as a stronger, healthier airline able to compete and grow in the face of a rapidly changing industry and aggressive competition. As part of this business plan, we shared savings targets for each employee group and proposed changes to our union agreements that, if obtained, would allow us to reach the necessary savings. Since that time, we have been working collaboratively to determine how best to achieve the goals of our business plan and balance the interests of a wide range of stakeholders including our employees, our creditors and the Pension Benefit Guaranty Corporation (PBGC).

While we still need to work with certain stakeholders and, in some cases, secure court approval, I'm pleased to report that in working with the Unsecured Creditors Committee (UCC) and the PBGC, we've developed a solution that would allow us to pursue a freeze of our defined benefit pension plans for non-pilot employees instead of seeking termination.

Freezing instead of terminating these plans of course would mean we will have significantly larger pension costs than contemplated in our business plan. While we still must achieve the \$1.25 billion in employee cost savings outlined in our business plan, we do not plan to increase that employee cost savings target. Instead, as part of our Plan of Reorganization, we intend to seek new capital at the appropriate time to cover the incremental annual costs of funding the frozen pension plans and to help fund the pension liabilities we will continue to have on our balance sheet. Our ability to attract new capital on terms that will give us the future flexibility we need requires that we achieve the \$1.25 billion of employee cost savings as quickly as possible. We must clearly demonstrate to other stakeholders – and now potential investors – that we have addressed our cost challenges and can emerge from Chapter 11 as a viable, well-capitalized airline.

Freezing the defined benefit pension plans would mean that employees would retain the full value of benefits accrued for service prior to the date the plan is frozen, and those benefits would not be reduced to PBGC guarantee levels in retirement. It would also preserve for employees the ability to satisfy the requirements to obtain the frozen benefit under the early retirement options, which we know many employees value. More information explaining what it means to freeze a pension plan is available on the Restructuring Resource Center on Jetnet.

Unfortunately, freezing pensions for our pilot group would pose additional challenges beyond those raised by freezing pensions for other workgroups. We are committed to working with the PBGC, the UCC and APA to identify acceptable alternatives to termination of the pilot pension plan.

For independent employees – agents, reps, planners, support staff and management – we will develop a plan to freeze the AMS pension plan and implement the replacement company matching benefit under the SuperSaver 401(k) plan. You will hear more about this transition in the coming weeks.

We believe this solution would remove a major obstacle to reaching consensual agreements and help to spark needed urgency at the bargaining table. In fact, we have already reached a tentative agreement with the TWU to freeze the defined benefit pension plan. We are committed to working with APFA to reach a similar outcome. It's time to move to the next phase in the restructuring process so we can focus on the path ahead and restore American to industry leadership and profitability. Our hope is that we can move quickly to reach agreements and continue executing our business plan.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Brundage", with a stylized flourish at the end.

Jeff Brundage

Q. The company previously said terminating the Pension Plan was necessary. What's changed?

The company's goal in restructuring is to reduce costs, improve revenue and transform our airline while seeking the best possible outcome for the most employees. When we outlined our proposed changes necessary for the business plan on February 1, we presented our ideas on how best to reduce our costs and transform our airline. While our necessary employee cost savings target of \$1.25 billion has not changed, we knew there could be modifications to those proposals along the way. Part of the initial plan included terminating the pension plans, but by working collaboratively with the UCC and the PBGC, we were able to develop an alternative solution that addresses this important issue for non-pilots. We are committed to working with the PBGC, the UCC and APA to identify acceptable alternatives to termination of the pilot pension plan.

By freezing the defined benefit pension plans, employees would retain the full value of their accrued benefit through the date the plan is frozen, and their benefits would not be reduced to PBGC guarantee levels in retirement. Employees would also continue to earn vesting service and retirement eligibility service. This means those who are not currently vested or eligible for early retirement could still grow into those options; options we know many employees value.

We believe this solution would remove a major obstacle to reaching consensual agreements and help to spark needed urgency at the bargaining table. In fact, we have already reached a tentative agreement with the TWU to freeze the defined benefit pension plan. We are committed to working with APFA to reach a similar outcome.

Q. What is the difference between freezing a defined benefit pension plan and terminating it?

No future benefits can be earned in a defined benefit pension plan that is frozen or terminated, so in that respect, they are the same.

If the plan is frozen, American would continue to administer it and make the benefit payments in accordance with the provisions of the plan. In addition, American would be responsible for continuing contributions to the plan to fund the benefit liabilities that were accrued prior to the freeze date and paying the PBGC insurance premiums. For employees, a freeze means they would retain the full value of their accrued benefit through the date the plan is frozen, and their benefits would not be reduced to PBGC guarantee levels in retirement. Employees would also continue to earn vesting service and retirement eligibility service. This means those who are not currently vested or eligible for early retirement could still grow into those options.

If the plan is terminated, the PBGC takes over the plan and administers it, including making benefit payments which would be subject to the PBGC's maximum benefit guarantees.

Q. Is the company proposing to freeze the pilot pension plan as well?

No. Freezing the pilot pension plan poses a unique challenge that doesn't apply to other workgroups. The lump sum pension option significantly increases the potential for higher than normal retirements, which presents severe operational risk. The company is working with the PBGC, the UCC and APA to come up with a solution to this dilemma and an alternative to terminating the pilot pension plan. However, unless we are able to address the lump sum issue, a freeze scenario cannot even be considered.

Q. If the company is willing to move on pensions, what else are they willing to move on?

As we've said from the outset, the company's proposals are our suggestion of how to reach the targeted cost savings required to make American a success. But, no matter how we get there, we must reach the necessary \$1.25 billion in employee cost savings. We are open to discussing any opportunities the unions provide that get us to our necessary target. However, taking on the pension freeze obligations would make it more critical than ever that we achieve the changes to our cost structure that are essential to the company's ability to successfully restructure.

Q. What if the unions don't agree to consensual deals – will you seek to terminate the plans, as you originally proposed?

This proposal is a win for employees and evidence of the company's desire to reach consensual agreements with our unions, and reach them soon. Every day that passes without new agreements introduces more risk to our situation. Hopefully the unions will agree and help us resolve the outstanding items quickly.