American Airlines

Jeff Brundage
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Human Resources

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Dear Colleague,

We announced today that in working with the Unsecured Creditors Committee (UCC) and the PBGC, we've developed a solution that will allow us to pursue a freeze of our defined benefit pension plans for non-pilot employees. Undoubtedly, you're asking yourself, why was the pilot defined benefit pension plan not also a part of that solution? The simplest answer is that the lump sum option available under the pilot A Plan presents a unique operational challenge that must first be addressed before a possible pilot A Plan freeze scenario can be explored.

Given the number of pilots who are eligible to retire, the company would be at significant operational risk if we emerge from Chapter 11 with a frozen plan that allows pilots to retire with a lump sum benefit. As of January 1, 2012, the number of pilots who are eligible to retire (age 50+) is 5,207. Assuming no retirements occur in 2012 (other than those required by the Age 65 rule), that number continues to grow in 2013. The departure of a significant number of pilots in a short period of time, incentivized by the availability of lump sum payouts, would have a severe, detrimental impact on our operations and is a risk that the company simply cannot afford to take.

We have and will continue to work with the PBGC, the UCC and APA on a solution that could allow us to freeze the pilot A Plan instead of seeking termination. Understanding that a pension freeze would be a significant improvement for our pilots over a termination, we are committed to examining all available options. However, unless we are able to address the lump sum issue, a freeze scenario cannot even be considered.

Our goal in the restructuring process is to reduce our costs and improve our revenue stream so that we can transform our airline and once again compete with other airlines on a growing and profitable basis. A key piece of that puzzle is achieving the savings targets for each employee group that were outlined when the employee cost restructuring process began in February. Achieving those cost savings targets will become even more crucial under a pension plan freeze scenario, which will require us to seek new capital at the appropriate time to cover the incremental annual costs of funding the frozen pension plan and to help fund the pension liabilities we will continue to have on our balance sheet. As we work with the PBGC, the UCC and APA to identify creative solutions that would enable us to explore alternatives to terminating the pilot pension plan, we must also remain focused on our efforts at the bargaining table and reaching a consensual agreement.

Our cost savings target remains the same, as does our need to work quickly to restructure our contracts and begin implementing the changes. In the event a freeze of the pilot A Plan can be pursued, the need to move quickly to reach a consensual agreement becomes even more critical – as we'd need to freeze the plan as quickly as possible to stem the growth in our unfunded pension liability.

The challenges we all face, challenges which led to our Chapter 11 filing, are extremely sobering. Only by working together to find a long-term solution can we find our way through those challenges.

Sincerely,

Jeff Brundage

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.

Is the company changing its proposed termination of the pilot B Plan?
No, the company is still seeking to terminate the pilot B Plan. While we hope a viable solution can be found that will allow the company to pursue a freeze of the pilot A Plan, these efforts do not affect the company's need to terminate the B Plan.

What retirement benefit will the company offer if proposed changes to the pilot A and B Plans are enacted?
Regardless of whether a solution is reached to address the lump sum dilemma associated with pursuing a possible pilot A Plan freeze scenario, the company still proposes to replace pilots' current A and B Plans with a defined contribution plan with a 13.5% company contribution.

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