

## **Pension Proposal**

In the last decade, pilots at virtually all other network carriers lost their pensions in bankruptcy – they were either turned over to the PBGC or were frozen. Continental and Northwest froze their defined benefit plans, while Delta, United and US Airways had theirs terminated under PBGC.

The company recognizes the importance of retirement benefits to pilots. Pension protection was a primary goal of negotiations in 2003 and American continues to provide the best-funded, most lucrative pilot retirement plan in the industry. Maintaining these benefits remains our goal in negotiations.

However, our annual pension funding requirements are extraordinary – we'll make payments of approximately \$520 million in 2011. To protect these benefits, we need to begin transitioning future employees to a more modern defined contribution program like other carriers, with maximum contributions equal to best in the industry.

### **Active Pilots**

Active pilots will have greater choice in their retirement plan. If pilots are satisfied with their A Plan and how those assets are handled, they can choose to keep it exactly as it stands today. There will be no change to current book for pilots who elect to stay in today's A Plan. Or, if they prefer, they can put a hard freeze on their A Plan funds and transition future company contributions to a 401(k) where they have more control over their assets (see chart on page 2 for contribution rates). Both options still provide industry-leading retirement while offering pilots more control over the risk associated with their investments.

In addition to the Hard Freeze option, active pilots will also be provided the opportunity to receive a one-time in-service distribution of their B Plan funds once they are age 60 or older. This in-service distribution allows a pilot to withdraw their full account balance from the B Plan and invest it however they chose, without requiring the pilot to retire. The look-back/lock-in feature would not apply to the in-service distribution or to contributions made after the date of signing. Pilots would have greater control over how their funds are invested and wouldn't be exposed to the negative impact of the look-back/lock-in feature.

### **New Hires**

New hires will participate in the B and 401(k) Plans, receiving company contributions that increase with years of service. Total contribution rates will cap at 16 percent which is top of the industry. The first 11 percent of company contributions will be placed in the B Plan with the portion of contributions above that going into the C Plan – 401(k) option.

It is important to note that even with the transition to a different retirement program for new hires, the company still provides a rich contribution without requiring new hires to make individual contributions to receive the benefit. As we transition to this modern plan, we still want to ensure that our future pilots have among the most lucrative retirements in the industry, and we feel the proposed changes hit that goal.

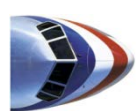
# Pension Proposal to APA

# New Hire Retirement Program

- ❑ Close the A Plan to New Hires
- ❑ B Plan and 401(k) Plan (C Plan)
  - Graded contribution scale that increases with service; total contribution rate capping at 16%

<b>Service (yrs.)</b>	<b>Total Contribution Rate</b>
12+	16%
11	15%
10	14%
9	13%
>1-8	12%
0-1	0%

- The portion of contributions above 11% will go to the C Plan
- Pilot hired after DOS but on disability, then 5% Company Contribution to Super Saver (or per phase in schedule if less)

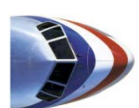


# A Plan Proposal for Continuing Actives

## □ A Plan – Hard Freeze Choice

<b>Age at Date of Choice</b>	<b>Company Contribution</b>
30+	5%
35+	6%
40+	7%
45+	8%
50+	9%
55+	10%
60+	11%

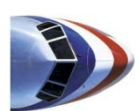
- Company contribution rate determined by pilot age at date of choice and remains fixed for balance of career and will be deposited into Super Saver plan
- Current pilots who elect Hard Freeze choice will receive appropriate % based on age at time of choice
- Current pilots who elect to stay in A plan, no change to current book



# A Plan Proposal for Continuing Actives

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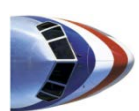
- ❑ No change to Normal Retirement Age of 60
  - Independent of normal retirement age, Plan to provide, to the extent allowed by law, unreduced benefit at age 60 with no change to current early retirement factors and reduction from age 60
  
- ❑ Allow QPSA waiver for all married participants
  
- ❑ Non-vested terminated pilots lump sum benefit
  - Terminated pilots eligible for a lump sum can receive at anytime after termination
  
- ❑ One time choice window for all active and inactive pilots: contribution rate determined on age at close of option selection period (four months after DOS)



# B Plan Proposal

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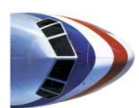
- ❑ Provide one-time in-service distribution on or after age 60
  - Available to active pilots anytime on or after age 60 (excludes pilots on disability)
  - No Look-Back or Lock-In; units valued at unit value in effect for the month in which the withdrawal request is received
  - Full account balance withdrawals only (no partial withdrawals)
  - Option to receive as cash or roll into 401(k) or personal IRA
  - Will offer option for lump sum and annuity forms of payment
  
- ❑ For New Contributions only:
  - Look-Back/Lock-In Feature no longer available (all participants, includes Supp. B)
  - Annuity based on the applicable mortality table pursuant to section 417(e)(3) of the Internal Revenue Code and the regulations promulgated thereunder as of date of signing



## B Plan Proposal (cont'd)

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- ❑ Allow different forms of payment for units from contributions after date of signing and units from contributions prior to date of signing
  - For example: a pilot could elect an annuity payment for old units and a lump sum payment for new units
- ❑ Allow QPSA waiver for all married participants
- ❑ Allow terminated pilots eligible for lump sum to receive at anytime after termination
- ❑ LTD benefits cease if participants retires or elects an in-service distribution from the Pilot B plan



# Super Saver

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- ❑ TDF is a fiduciary decision that will be made by PAAC
- ❑ By directing company contribution to invest in TDF, this eliminates full participant control. If the PAAC adds TDF into the plan, investment elections are all participant directed



# Administration

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- ❑ If Contributions exceed IRS limits (\$49,000 currently), difference paid to participants in cash
- ❑ Grievances:
  - 99-050: B Plan expenses to be arbitrated
  - 08-011: Canada – withdraw with prejudice
  - 09-026: Supp F1 – withdraw without prejudice
  - 09-027: Supp F4 – withdraw with prejudice
- ❑ Pension Data
  - Company to abide by current schedule for providing pension data
  - Exclude pension data request from CBA

