Jeff Brundage Addresses Pension Plans

1/23/2012

Colleagues,

The news coverage in recent weeks speculating about the future of our pension plans has raised many questions among our employees. I know many of you are worried that the pension benefits you have worked for will be lost and you will have no retirement plan in the future. Let me say this in no uncertain terms: If you have a vested pension benefit, that simply is not true.

For those whose pension benefit has vested, if the pension plans are terminated, more than 90 percent of participants would see no reduction in their pension benefit accrued as of the November 29, 2011, Chapter 11 filing date if payments begin at normal retirement age. Excluding upper management and pilots, fewer than 2 percent of the participants in the remaining workgroups - primarily those at the very highest compensation levels - would have a reduction in their pension benefit earned to date if payments begin at normal retirement age. If the pension plans are frozen, but not terminated, no participant's current accrued pension benefit would be reduced. And, be assured that in addition to the benefits earned under the current pension plans, all active, eligible employees of AMR will continue to accrue some form of retirement benefit going forward, regardless of whether the defined benefit plans are terminated or frozen.

In talking about these issues, it is helpful to understand the role of the Pension Benefit Guaranty Corporation (PBGC). The PBGC was created to serve as a safety net for companies who are no longer able to support their defined benefit plans. PBGC is a government corporation, but it is not funded by our tax dollars. It gets part of its funding from required insurance premiums paid by Companies and/or pension plans like America's. Much like an individual pays insurance premiums to protect property against unexpected events, America's defined benefit plans have paid more than $236 million in premiums to the PBGC since 1994 to ensure your benefits would be protected.

It's not possible to answer all of the specific questions I know you have with this letter. However, we have included responses to some of your more frequently asked questions in the attached FAQs and we have put more information on Jetnet. I think you will find this information useful as you figure out what all this means to you and your future.

These are difficult and challenging times for us all. This letter is not intended to announce any specific plans and as more information becomes available, we will provide you with the facts and help explain what it means for all employees. But, rest assured that whatever happens with our pension plans will happen as part of a comprehensive business plan aimed at making American Airlines a successful and profitable company that can grow and prosper for many years to come.

Sincerely,

Jeff Brundage
Senior Vice President, Human Resources

Frequently Asked Questions

How can I find out if my benefit is over the PBGC Maximum?

All employees can view their December 31, 2010 pension statement in Jetnet and compare the accrued benefit reflected on that statement to the PBGC Maximum Monthly Guarantees reflected in the chart below to get an idea of whether their benefit may be affected. To view your statement in Jetnet, use the following link:

https://aart.jetnet.aa.com/DBSnapshot.aspx

Or, select the Benefits tab on the home page, then under "Planning" on the left-hand side of the page select "Retirement." On the Retirement page under "Pension-Defined Benefit" select "My Pension Statement." This will take you directly to your December 31, 2010 pension statement. Find your "Annual Accrued Benefit" reflected on...
the statement and then compare to the PBGC chart below.

Note: The December 31, 2011 pension statements will be available in April. Note: This discussion is general and does not address special situations such as disability pension benefits.

Chart Taken From PBGC website:

<table>
<thead>
<tr>
<th>Age</th>
<th>Annual Maximum</th>
<th>PBGC Maximum Insurance Benefit for 2011</th>
<th>Monthly Maximum</th>
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<tr>
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<tr>
<td>55</td>
<td>$24,300.00</td>
<td>$2,025.00</td>
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</tr>
</tbody>
</table>

Has any other carrier who went through the bankruptcy process continued to offer their defined benefit plans for employees?
Continental kept their defined benefit pension plans when they emerged from bankruptcy in 1993. They subsequently froze their pilot defined benefit plan in 2005. United, Delta, Northwest and US Airways, who all filed for bankruptcy in 2002, or later, either terminated or froze all of their defined benefit pension plans. American and Continental are the only legacy carriers that have continued to offer defined benefit pension plans. American has contributed almost $3 billion to its pension plans since 2002 and has continued to pay insurance premiums to the PBGC, even as the airline was posting losses and competitors were filing bankruptcy.

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. But, if the plan is terminated the Pension Benefit Guaranty Corporation (PBGC) takes over the plan and administers it, including making benefit payments. If the plan is terminated, only the benefits you have vested in and attained eligibility for as of the November 29, 2011, Chapter 11 filing date will be payable (subject to PBGC rules and limitations). The terminated plan would be subject to the PBGC's maximum benefit guarantees and various other limitations such as the form of payment that can be elected and the age at which benefits can begin to be paid. If the plan is frozen, AA will continue to administer it and make the benefit payments in accordance with the provisions of the plan. In addition, AA 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.

Why did the company only fund $6.5M of its latest scheduled pension contribution?
There have been multiple media reports regarding the Company's defined benefit pension plan contribution for the fourth quarter of 2011, which have created some confusion and concern. The reported $99 million contribution due to be paid in January included $27 million for the underfunded portion of our plans and $72 million for the benefits that accrued during 2011. The underfunded portion and the benefits that accrued during 2011, and before the November 29, 2011 Chapter 11 filing, are considered "pre-petition" costs, and those pre-petition costs, just like unpaid bills from suppliers for work completed prior to the date of our November 29 filing, must be dealt with under the supervision of the court. The amount of the contribution allocable to the post-petition period November 29 through December 31 was $6.5 million, and this amount was paid by American.

Also keep in mind that American had already contributed nearly $520 million to the defined benefit plans earlier in 2011.

What if I'm not vested?
Participants with less than five years of vesting service as of November 29, 2011, will lose their accrued benefit if the plans are terminated. If the plans are frozen, participants will continue to earn vesting service.

Employee Examples

Example 1 - A 55 year old non-pilot employee earning $50,000 with 20 years of credited service in the pension
plan as of November 29, 2011
This employee is currently eligible to retire. If he retired now, his benefit payable would be about $14,169 per year or $1,180 per month. So if this employee retired now his benefit of $14,169 would be fully guaranteed by the PBGC because this benefit is under the PBGC Maximum Guarantee for age 55.

If this employee continues to work or defers commencement, his benefit will increase to $16,670 at age 60 as the plan’s early retirement factors decrease. The benefit at age 60 would be fully guaranteed by the PBGC because it is also under the PBGC Maximum Guarantee for age 60. Because this employee is eligible for his full unreduced benefit at age 60, his accrued benefit will not increase after age 60.

Example 2 - A 55 year old non-pilot employee earning $85,000 with 20 years of credited service in the pension plan as of November 29, 2011
This employee is currently eligible to retire. If she retired now, her benefit payable would be about $24,088 per year or $2,007 per month. So if this employee retired now her benefit of $24,088 would be fully guaranteed by the PBGC because this benefit is under the PBGC Maximum Guarantee for age 55.

If this employee continues to work or defers commencement, her benefit will increase to $28,339 at age 60 as the plan’s early retirement factors decrease. The benefit at age 60 would be fully guaranteed by the PBGC because it is also under the PBGC Maximum Guarantee for age 60. Because this employee is eligible for her full unreduced benefit at age 60, her accrued benefit will not increase after age 60.

In the event that this employee’s age 60 benefit had been over the PBGC’s maximum guarantee of $35,100, then deferring the commencement date would increase the maximum benefit this employee would receive.

Example 3 - 55 year old non-pilot employee earning $85,000 with 25 years of credited service in the pension plan as of November 29, 2011
This employee is currently eligible to retire. If he retired now, his benefit payable would be about $30,110 per year or $2,509 per month. So, if this employee retired now his benefit of $30,110 would not be fully guaranteed by the PBGC because his benefit is over the $24,300 PBGC Maximum Guarantee for age 55.

If this employee continues to work or defers commencement, his benefit will increase to $35,423 at age 60 as the plan’s early retirement factors decrease. Because this employee is eligible for his full unreduced benefit at age 60, his accrued benefit will not increase after age 60. The employee's accrued benefit at age 60 would still be greater than the PBGC’s Maximum Guarantee of $35,100 and would not be fully guaranteed by the PBGC. However, if the employee continued to work or deferred commencement until age 61 or later, then the employee’s accrued benefit of $35,423 would be below the PBGC’s Maximum Guarantee and would be fully guaranteed.