

HOW SAFE IS MY PENSION PLAN?

Over the next few months you will hear discussions concerning American Airlines different pension plans, what American's contributions are, what their long term liabilities are, and whether those plans are fully funded. These discussions will have a direct impact on what American will be allowed to do in bankruptcy with our plan, so it is good to understand what is meant by these terms. This discussion gives a brief overview of what American has said in their bankruptcy filing, what they said about how well the flight attendant plan was funded in the reports they are required to file about the flight attendant plan, and a little about what that means.

Below is an excerpt from their bankruptcy filing concerning their obligations covering 2011 to be paid in 2012:

"25. The Debtors maintain several defined benefits plans (the "**Defined Benefits Plans**"). The Debtors are responsible for making minimum funding contributions to the Defined Benefits Plans for, in part, past service of their Employees in accordance with the Internal Revenue Code of 1986, as amended, based on annual actuarial calculations. The Defined Benefits Plans are as follows:

- The Retirement Benefit Plan of American Airlines Inc. for Flight Attendants, which requires contributions for Plan Year 2011 of approximately \$16 million payable on January 15, 2012 and \$13 million payable on September 15, 2012.

- The Retirement Benefit Plan of American Airlines Inc. for Employees Represented by the Transport Workers Union of America, AFL-CIO, which requires contributions for Plan Year 2011 of approximately \$37 million payable on January 15, 2012 and \$19 million payable on September 15, 2012.

- The Retirement Benefit Plan of American Airlines, Inc. for Agent, Management, Specialist, Support Personnel and Officers, which requires contributions for Plan Year 2011 of approximately \$22 million payable on January 15, 2012 and \$23 million payable on September 15, 2012.

· The Pilot Retirement Benefit Program Fixed Income Plan, which requires contributions for Plan Year 2011 of approximately \$24 million payable on January 15, 2012 and \$50 million payable on September 15, 2012.
26. “

In addition to the annual contributions going into the pension funds, American has to pay for the administrative costs of the funds as well as pay insurance premiums to PBGC.

Now let's talk about what kind of shape the flight attendant pension fund is in. Each year American is required to take a snapshot of the condition of the fund and report on how it is doing. This snapshot is done at the end of the calendar year, so the picture we have available to us is almost a year old. The report was sent to you last year in the spring, which if you are like most people, you immediately put in the recycle bin. I will give you a brief synopsis of the report. This information is for the plan year January 1, 2010 to December 31, 2010.

HOW MANY FLIGHT ATTENDANTS ARE COVERED BY THE PENSION PLAN?

On the plan's valuation date for 2010, there were 28,381 participants. Of this number, 17,759 were active participants, 3,952 were retired or separated and receiving benefits, and 6,670 were retired or separated from service and entitled to future benefits.

HOW WELL FUNDED IS THE FLIGHT ATTENDANT PENSION PLAN?

Funding target attainment percentage is a fancy term for taking how much money is in the Plan and dividing it by how much should be in the Plan to cover its Liabilities (or what it is expected to be paid out over time). On January 1, 2010, the plan had a little over **\$1.490 billion in assets** and had liabilities of a little over **\$1.510 billion in liabilities**. Dividing the two that means that the plan was **98.66% funded (the higher the percentage the better funded the plan)**. Under this model, American is expecting its assets to have investment returns of 8.25% each year so that the fund will have enough money to pay out to people 10, and 20 and 30 years down the road. If the fund doesn't achieve those investment returns, then American must put in more money. If the fund earns more than 8.25% in a year, American has to put less money in their pension plans. American's funding policy is to contribute at least the minimum amount required under ERISA, the law governing our pension plan.

HOW DOES AMERICAN INVEST MY PENSION FUND?

American's flight attendant pension plan has an investment policy. The investment policy is a written statement that provides the Plan officials guidelines or general instructions on investment management decisions. All of the assets in the Plan are invested in a master trust which cannot be touched by the creditors of AMR in a bankruptcy filing. The investment policy has target allocations as follows:

35% in longer duration corporate and U.S. government/agency bonds

28% U.S. value stocks

20% international stocks (developed nations)

6% emerging market stock and bonds

11% private investments.

WHY DO I HEAR THE PLAN IS UNDERFUNDED IF WE ARE FUNDED AT 98.66%?

There are two reasons there are discrepancies. One is that the quotes you hear are about all American's pension plans combined. Each plan is in a separate trust and has different funding levels, but reports when quoting American officials or looking at the company SEC filings will look at the plans as one huge entity (AMR pension plans) vs each individual plan. The bankruptcy judge and PBGC will be looking at each plan individually.

Secondly, other large firms and the PBGC normally adhere to what are called "generally accepted accounting practices" (GAAP) which require a more stringent funding of pension plans than what is being used at AMR. However, two laws allowed American to change how much they were required to put in their pension funds to keep them "fully funded" causing a difference between what is legally required under federal law and what an auditing company under generally accepted accounting procedures would call fully funded. One, the Pension Protection Act of 2007 allowed American to evaluate their funding status looking over a longer term vs a shorter term. It kept American from having to put more money each year in their pension plans and helped them to compete with airlines that had not gone into bankruptcy by smoothing out over a longer period of time the contributions they had to make. In addition, the Pension Reform Act of 2010 allowed American time to smooth out the big market drop that happened in 2008 and 2009. Because the market dropped so badly at that time, American's contributions would have been huge. (Remember that American plans on making 8.25% a year

not losing 40%). Because the market has since recovered, the plan did not require that huge contribution because the law gave American time to make up for that drop.

Because of these two things, you will hear funding discussed two ways: we are 98.66% funded based on what federal law requires, but much more poorly funded based on generally accepted accounting procedures. In addition, new information will be coming out for the calendar year January 1, 2011 to December 31, 2011. This could cause changes in this funding percentage.

If you have questions about this article or retirement benefits in general, please send an e-mail to retirement@apfa.org.