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November 7, 2011

To: AA Local President's & Members  
Re: Prefunding Trust Review

Brothers and Sisters,

In follow up to the discussions at the October 19<sup>th</sup> and 20<sup>th</sup>, 2011 Presidents' Council meeting and per requests from the Title III Negotiations team we have had TWU General Counsel, along with outside counsel and prior negotiators of the critical agreements review the documents. Attached you will find an overview of that information highlighting some of the questions and concerns being asked of the Locals as well as how the Trust operates. I would also like to point out that the language in the Collective Bargaining Agreements, Article 41, also spells out how the Trust funds are used and what they can be used for.

I hope this information helps everyone to better understand how the plan operates and assist in being able to make sound educated decisions as to what best serves you and your families.

Fraternally,

**Robert Gless**  
Deputy Director  
AA System Coordinator

RG:cds opeiu-153 afl-cio



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November 7, 2011

Mr. Robert Gless  
Transport Workers Union  
Deputy Director/ AA System Coordinator  
1791 Hurstview Drive  
Hurst, TX 76054

With regard to the pre-funding of American Airlines retiree medical benefits, you have requested that I review the terms of applicable collective bargaining agreements and Trust language in order to comment to the AA Presidents' Council on the legal status of the employer match to employee prefunding contributions. After review of the documents, and consultation with, among others, the negotiators of the relevant agreements, I offer to the Presidents for their consideration, the following points, which I believe not just significant but critical to the issues involved:

1. The money is in trust for purposes of paying for retiree medical benefits and cannot under any circumstances either revert to AA, or be spent for its purposes or benefit.
2. Under the documents, the employer matching funds are "identical" to the Participants' prefunding contributions, Article 41 n 4. Those funds must be used for payment for "retiree welfare benefits due to Participants under the terms of the Plan and to pay administrative expenses associated with such Program," Article 41 n 2. The employer contribution cannot be used for any other purpose so long as the Trust, which holds the monies, continues to exist.
3. The employer match must be used to pay for the retiree welfare benefits of retirees. Moreover, exhaustion of these matching contributions on behalf of each employee does "not waive or modify the retirees entitlement to continued medical coverage under the Agreement or the terms and limitations of the Plan," 41 n 7 (Article 41 n 3 under the new Fleet Service agreement). This is true for fleet service employees retiring under the newly amended Plan provisions, as it is for those retiring under the Plan without the new amendments.
4. The only circumstance in which the employer match is not handled in accordance with Article 41 is in the event the Trust holding the prefunding contributions is terminated. It should be emphasized that AA as Plan Administrator cannot terminate the Trust without TWU consent. Should the Trust be terminated, or should the requirement for TWU consent be eliminated (possibly in bankruptcy), the employer contribution still may not revert to AA or in any other way redound to its benefit. The Trust and the agreement both state that the these amounts (and investment earnings attributable to

company contributions), if there is termination, must be used for the "exclusive benefit of participants," and the sole permissible use of these funds following termination that is specified by the applicable agreement language, is "the use of such assets for the purpose of continuing retiree health coverage under an alternative program as may be agreed to by the parties," Article 41 n 9.

5. Under the tentative agreement, the prefunding trust continues in existence, despite the refund of employee contributions.

One further comment regarding the impact of a possible bankruptcy on the issues discussed above: keep in mind that in bankruptcy the issue of whether AA would be able to cease continued funding of retiree health care is distinct from whether the Trust that holds AA prefunding contributions can be terminated. For example, there is no reason why the Trust Agreement would not continue even if AA is permitted to end its retiree medical obligations.

TWU has shown, by the agreements it has negotiated in the past, that it regards a plan whereby retirees are helped to pay for their health care as an important bargaining goal. The importance of the goal continues to be reflected in the legal language designed to have AA's prefunding contributions be used for what it was intended for: retiree health coverage.

Feel free to contact me with any further questions that you may have.

Fraternally,

A handwritten signature in blue ink, appearing to read "D. Rosen".

David Rosen  
General Counsel

DR:tt  
opeiu-153