

March 11, 2003

TO: All AA Members Locals 501-590

RE: Company Proposal

Dear Sisters & Brothers:

Today the Company presented the TWU/AA Presidents Council with its proposal for the \$620 Million in contractual relief it stated was necessary for the Company to avoid bankruptcy. Company representatives stated that the proposal was not a "take it or leave it" offer, but emphasized that it could accept no less than \$620 million in relief, as well as the amounts already demanded of other work groups, and still avoid bankruptcy. A refusal to deal in good faith with Company proposals to reorganize itself in order to avoid bankruptcy would gravely undermine any effort to protect our agreements in the event the Company does file for bankruptcy.

In light of this, the Presidents will carefully review and cost out the Company's proposals and otherwise perform due diligence with respect to each request. As part of this, on Thursday, we will review the Company's business plan with our consultants, as well as fully discuss the requirements of the Bankruptcy code with counsel for both Bargaining Committees.

During the coming days, we will deal in full good faith with the Company. That does not mean we will agree to the proposal. In the end, though, it is clearly in our members' interest to avoid a bankruptcy and we will do our best to accomplish this.

Fraternally,

AA Presidents Council

March 11, 2003

International TWU Staff  
Local TWU Presidents

Dear TWU Leaders,

Today, in response to your request, we are presenting a proposal to you that specifically details how the TWU's cost savings targets could be achieved. We understand that a proposal is preferable to the menu of options we had provided earlier, and hope that it will help focus our discussions, as time is of the essence.

Because the proposal is being provided within the Company's overall restructuring plan, it necessarily focuses on how we can reduce spending, increase productivity and hit the target. We recognize and appreciate the difficulty of these considerations. Therefore, as you consider the proposal, keep in mind these important points:

- This is but one method to reach the target, not a "take it or leave it" proposal;
- We remain flexible about how the target will be realized;
- We remain committed to on-going dialogue; and
- The Company has pledged to provide opportunities to share in any future success.

We hope this proposal is a step in the right direction toward our common objective of quickly reaching an agreement that meets the Company's restructuring requirements and is one that you and your membership can support.

Sincerely,

James B. Weel  
Managing Director  
Employee Relations

# **American Airlines**

## **Comprehensive Restructuring Proposal of the AA/TWU Agreements**

**AA Negotiating Committee**

**March 11, 2003**

## **Introduction**

**The following proposal is intended to restructure the AA/TWU labor agreements consistent with the Company's Business plan.**

- **The proposal is being provided to the TWU under the following assumptions:**
  - 1) **The Company requested \$620 million relief from the AA/TWU agreements as part of the total \$1.8 billion steady state savings required from all employees in order for our Company to avoid bankruptcy. The attached proposal is an appropriate means of achieving the needed relief from the TWU consensually.**
  - 2) **All wage and workrule proposals will be effective DOS. Certain work rule changes may require an implementation period. Any savings forfeited as a result of an implementation period must be made up through offsetting cost savings during the first year of the agreement.**
  - 3) **There will be no “grandfathering” provisions for any of these wage and workrule proposals.**
  - 4) **In order to realize the true value placed on the proposed changes, implementation will occur immediately. Required changes to the QAM, local agreements and/or other documents will be made as soon as possible and will not delay implementation of any cost saving initiative.**
  - 5) **Modification to the system job protection provision, as necessary, to achieve cost savings associated with proposals involving headcount reductions.**
  - 6) **The Company is committed that all employees, including those represented by the TWU, will share in the upside which any successful restructuring might provide.**

## **Prelude to Proposal**

- **As part of the on going active engagement process and through the rejection of the previous proposal, it became clear that the interest of the Union centered around preserving jobs, maintaining protection provisions and avoiding outsourcing.**
- **Therefore, in order to try and meet the needs of the Union and in the interest of long term stability for the TWU classifications covered by the eight (8) labor agreements with the TWU, while still providing the needed level of cost savings consensually, the Company is providing the following restructuring proposal. The proposal is intended to be competitive as it relates to wages and work rules not only within the airline industry, but also with outside vendors who perform work today performed by TWU represented employees. We believe these proposals are required to fundamentally change our labor agreements to provide for our long term viability.**
- **This comprehensive proposal is not a “take it or leave it” proposition and is designed to address both Union and Company interests. However, the Company remains committed to a collaborative approach regarding consideration of alternative cost saving options and is prepared to work with the TWU to achieve the \$620 million in required savings.**

# Wages

## Wages

- **16% Base Salary Reduction** **\$333.4 MM**
  - The percentage reduction is applied to all TWU classifications and to each step of the pay scales based on the 3/1/03 rates and headcount as of 1/1/03
  - Requires modification to Article 4 - Compensation
- **Eliminate longevity pay** **\$13.1 MM**

# Work Rules

## Work Rules – Wage implications

• <b>Holiday Package</b>	<b>\$58.9 MM</b>
– Reduce from ten (10) to five (5) holidays at 1.5X for HW; no HO pay for Day off/VC; no roll;	
• <b>Eliminate all shift differential</b>	<b>\$26.6 MM</b>
• <b>Eliminate penalty lunch payment</b>	<b>\$5.9 MM</b>
• <b>Eliminate full-time first rights to overtime</b>	<b>\$3.0 MM</b>
– May extend Part time emps. prior to offering OT to full time emps.	
• <b>Eliminate Midnight Retention premium (MRT)</b>	<b>\$3.0 MM</b>
• <b>Pay penalty hours for actual time worked @ 1.5X</b>	<b>\$2.8 MM</b>
– Ex. Emp. works 10 minutes beyond quit time; 1.5x rate for the ten minutes	
• <b>Reduce overtime rate of 2.0X OT to 1.5X</b>	<b>\$2.7 MM</b>
• <b>Eliminate weekend premium at AFW/TUL/MCIE</b>	<b>\$2.0 MM</b>
• <b>Eliminate overtime meal allowance of \$3.00</b>	<b>\$1.3 MM</b>
• <b>Eliminate early call-in guarantees; paid OT for time worked</b>	<b>\$1.3 MM</b>
• <b>Eliminate Crew Chief premium when not working as a CC</b>	<b>\$1.1 MM</b>
• <b>Eliminate short turn penalty due to shift bids</b>	<b>\$0.6 MM</b>
• <b>Eliminate Dispatcher Debrief Pay</b>	<b>\$0.6 MM</b>
• <b>Pay training: off-shift &amp; day-off at straight time</b>	<b>\$0.4 MM</b>
• <b>Must actually work 40 hrs for 1.5X premium</b>	<b>\$0.3 MM</b>
• <b>Eliminate premium pay for travel time while training</b>	<b>\$0.2 MM</b>
• <b>Eliminate Technical Specialist Debrief Pay</b>	<b>\$0.2 MM</b>

## Work Rules - Productivity

- **Modify Crew Chief ratios** **\$13.0 MM**
  - AMT 1:11.5 ; FSC 1:9; Others eliminated with understanding that one classification can oversee another
- **Combine specialty job classifications (M&R Title I)** **\$6.8 MM**
  - Any QAM modification necessary is agreed to by the TWU
- **Eliminate part-time staffing restrictions (system & station)** **\$6.4 MM**
- **Simplify bidding process for moves and adjust manning (M&R base)** **\$4.1 MM**
  - Any QAM modification necessary is agreed to by the TWU
- **Combine specialty job classifications (M&R Title II)** **\$1.9 MM**
  - Any QAM modification necessary is agreed to by the TWU
- **Instructor "W" days moved at Company discretion**  
**\$0.5 MM**

## Work rules – Vacation

- **One week of vacation is unpaid** **\$44.4 MM**
- **Cap vacation accrual at 5 weeks** **\$11.9 MM**

## Work rules – SK/IOD

- **Modify IOD provision (eliminate 80 days)** **\$19.6 MM**
- **Reduce annual accrual to 5 days; pay at 100%** **\$15.0 MM**
- **Discontinue Company subsidized medical benefits for furloughed employees** **\$1.1 MM**

## Work Rules - Miscellaneous

- Eliminate Company paid Union business (UBP) \$3.1 MM
- Reduce uniform provisioning \$1.0 MM
  - AMTs – 11 to 6; FSC – 9 to 6
- Eliminate Company paid uniform laundering \$0.9 MM

## Medical/Dental Plans/Pension

- Medical & Dental Plan\* \$72.2 MM
- Pension \$9.0 MM
- Retiree Medical Prefunding elimination \$7.6 MM

See the following slides for details on proposed changes to the Medical/Dental and Pension plans

\*Although some of the Medical and Dental plan changes do not require contractual change, the Company will credit the value of the change towards the \$620 million target, if accepted in its entirety.

## Summary



\* Adjusts for wage and benefit reductions and assumes a 3% double count adjustment for headcount reductions

## Medical Benefits

- **Standardize all Medical Plans across all employee groups**
  - Active Medical
- **Replace current plans with the following employee choices:**
  - POS-like plan (high cost, high coverage plan)
  - PPO-like plan (medium cost, medium coverage plan)
  - Catastrophic plan (low cost, low coverage plan)
  - HMO plan, where feasible
- **Medical maximum benefit for active employees \$1MM**
- **Modify active medical Company contributions to national average (presently 80%)**
  - **Company subsidy based on PPO plan value**
    - \* **employee contribution to make up difference**
- **Change contribution structure to 4 tiers (from current 3 tiers)**
  - Employee plus 2; Employee plus 3 or more**

## Retiree Medical

- Standardize all Medical Plans across all employee groups
- Employee portion of Pre-funding plan accounts refunded

### Retiree Medical Under 65

- For prospective Retirees only - Company will determine changes for prior retirees
- Plan design same as Active employees
- Modify retiree medical contributions by the Company to national average (presently 60%)
  - Company subsidy based on PPO plan value
    - \* employee contribution to make up difference

### Retiree Medical Over 65

- Modify medical plan design to provide only prescription drug coverage
- Modify contributions by the Company to national average (presently 25%)

## Dental Benefits

- **Standardize all Medical/Dental Plans across all employee groups**
  - Active Dental
- **Eliminate 2002 Dental Plan enhancements**
  - 100% Preventative coverage (to 80%)
  - Adult Orthodontia coverage (eliminate)
  - Individual plan maximum reduced from \$1500 to \$1000
  - Child orthodontia reduced from \$1500 to \$1000 lifetime maximum
- **Remove cash back options**
- **Reduce Company subsidy for Active Dental coverage from 87% to national average of 75% for employee and dependents**
- **Change to 4 tier contributions (from current 3 tier)  
(same as medical plan above)**

## Retirement Benefits

- **Standardize Retirement Plans across all employee groups**
- **Propose restructuring of the agreement as follows:**
- **Freeze the existing defined benefit plan for both pay and service**
- **Employee would have an option on a one time basis of either:**
  - **Prospectively replace the defined benefit plan with a 5.25% cash balance plan**
  - **Accounts will receive a fixed rate return equal to the 30 year treasury rate**

*or*

  - **Prospectively replace the defined benefit plan with a 401(k) match at 5.5%**

## Duration

- The proposed duration of the agreements is six (6) years from DOS.