

American Airlines

**AA/TWU Mechanic and related
Agreement**

Comprehensive Restructuring Proposal

AA Negotiating Committee

March 3, 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 TWU financial advisors/consultants have concluded that the Company requires the \$620 million relief from the AA/TWU agreements as part of the total \$1.8 billion steady state savings in order for our Company to survive and sustain its viability.**
 - 2) **Elimination of the system job/station protection provisions.**
 - 3) **All wage and workrule proposals will be effective DOS.**
 - 4) **All wage and workrule proposals will exclude "grandfathering" rights.**
 - 5) **Article 11 modified to delete QAM reference. Administration under sole jurisdiction of the Company.**
 - 6) **Return to Table II OSM guidelines in the 1996 29D.**

If you require any additional information regarding any of the proposals, please contact James Weel at 214-289-7722.

The following savings values are not additive in every case.

Total savings require a roll-up adjustment for wage/benefit reductions. Total savings will require adjustment to reflect double count between items.

Article 1 - Recognition and Scope

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Modify Article 1 to allow the outsourcing of any work function within Title I/II or to accommodate the sale of any portion of the operation**

Title I: \$223.4 MM

Title II: \$ 64.8 MM

OR

Prelude to M&R proposals

- In the interest of long term stability within the aircraft maintenance mechanic and related classifications, the Company is proposing the following restructuring of the AA/TWU Mechanic and related labor agreement. 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 aircraft overhaul and repair work. The Company believes the following proposals are required to fundamentally change the way M&E conducts its business going forward, with the intent to preserve as much employment within M&E as necessary and to maintain the viability of overhaul maintenance and American Airlines.
- In addition, the proposal contains necessary restructuring for all other areas within M&E that will allow American Airlines to be competitive and to survive and sustain its viability for the long term.
- Many of the work rule proposals are intended to accomplish the above, however, the Company recognizes that there are alternatives contained within the proposal for many of the various wage and work rules with the overall objective of reaching the \$620 million target for all TWU represented employees.

Article 4 - Compensation

- **Propose the following to achieve competitive pay rates & premiums:**

For the Mechanic and related agreement:

- **Reduce the “chart” rates for all TWU classifications by 1%* \$10.8 MM****
- **Eliminate payment of longevity pay \$5.7 MM**
- **Eliminate C/C premium when not working in C/C capacity \$0.1 MM**
- **Eliminate Midnight Retention Premium \$3.0 MM**

- * Includes variable benefits for 2003 plan

- ** Each 1% reduction is equivalent to \$10.8 MM

Article 4 - Compensation

- **Propose the following competitive pay rates and premiums:
For the Mechanic and related agreement:**
- **Eliminate weekend premium at the Maintenance bases** **\$1.7 MM***
or
- **Pay only for hours actually worked within the
weekend premium window; article 3(i)** **\$1.6 MM****
and/or
- **Pay weekend premium only for hours actually worked** **\$0.3 MM**
Ex.: Not paid for VC/SK/HO, etc. or other paid time not worked
- **To be competitive with FBOs modify article 4(g) to pay for
licenses only where required by the Company such as:** **\$23.7 MM**
Line Maintenance and A/O docks (A & P license)
Engine Assembly (P license)

* Based on 2002 Actuals

** Based on 2/03 headcount working 2230/Sun

Article 4 - Compensation

- **Propose the following competitive pay rates and premiums:**
For the Mechanic and related agreement:
- **Eliminate skill premium (Title I and Title II) \$15.0 MM**
- **Modify License premium rates as follows:**

	2 -License (\$/hr)	1-License (\$/hr)	Savings (\$MM)	Savings with Variable Benefits (\$MM)
3/1/03	\$5.00	\$2.50	NA	NA
Option A	\$4.50	\$2.25	\$11.5	\$12.9
Option B	\$4.00	\$2.00	\$23.4	\$26.3
Option C	\$3.50	\$1.75	\$35.2	\$39.6

Note:

1/ Variable benefit savings assume current pension plans.

Article 5 - Shift Differential

- **Propose restructuring of the agreement as follows:**
For the Mechanic and related agreement:
- **Eliminate all shift differential pay** **\$13.1 MM**
or
- **Pay only for hours actually worked within the shift differential window. Ex: Emp. A: 0430-1300 shift; pay 1.5 hrs. for period from 0430-0559.** **\$TBD**
and/or
- **Pay shift differential only for hours actually worked. Ex: shift differential not paid for VC/SK/HO or other paid time not worked.** **\$1.2 MM**
and/or
- **Modify Shift 4 to 1700 - 0459** **\$0.4 MM**

Article 6 - Overtime

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Elimination of the overtime meal allowance** **\$0.1 MM**
- **Modify penalty hour to pay for actual time worked at 1.5X** **\$0.4 MM**
- **Employees must physically work 40 hours in a week
before being eligible for 1.5X premium** **\$0.3 MM**
- **Eliminate 2.0X overtime rate; all OT paid @ 1.5X rate** **\$0.8 MM**

Article 7 - Holidays

- **Propose restructuring of the agreement as follows:**
For the Mechanic and related agreement:
- **Reduce number of paid holidays** **\$2.2 MM**
and/or **(per holiday)**
- **Reduce the premium paid for working on a holiday from**
2.5X to 2.0X **\$7.6 MM**
and/or
- **Modify Article 7 to eliminate the rolling of the “observed” holiday,**
pay HO for holiday that falls on day off or during vacation **\$2.2 MM**

Article 8 - Vacations

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Reduce vacation accrual to a maximum of 5 weeks** **\$6.8 MM**

Article 11 - Classification and Qualifications

- **Propose restructuring of the agreement as follows:**
For the Mechanic and related agreement:
- **Modify all C/C ratios** **\$11.5 MM***
 - **AMT ratio 1 : 15**
 - Eliminate all other C/C ratios
 - Allow Crew direction to encompass any classification
- * Valued at 1 :11.5 ratio with objective to phase to 1 : 15 ratio

Article 11 - Classification and Qualifications

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Combine structures and systems job functions into a general mechanic classification for Base maintenance airframe overhaul** **\$6.8 MM**
- **Convert OSM work, currently performed by MCIE AMT's to be performed by OSM's at OSM rates of pay** **\$1.7 MM**

Article 11 - Classification and Qualifications

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Reclassify MOC Tech Specialist to a Title I Tech Crew Chief classification and reduce rate of pay** **\$0.4 MM**
- **Combine carpenter, millwright, welder and painter skills into one general mechanic classification for Base maintenance** **\$1.9 MM**
- **Outsource building cleaner work** **\$1.1 MM**

Article 12 - Promotions and jobs to be posted

- Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:
- Adjust manning requirements on temporary or permanent basis within a Business Unit (overhaul base) at company discretion
(Attachment 12.1)
and
- Permanent vacancies resulting in an addition to a Business Unit (overhaul base) will be filled in accordance with Article 12
(Attachment 12.1)
and
- Redefine movement hierarchy, with Attachment 12.1 following a surplus 1 deep, then 12(l), 12(m) **\$4.1 MM**

Article 17 - Leaves of Absence

- **Propose restructuring of the agreement as follows:**
For the Mechanic and related agreement:
- **Eliminate UBP - All Union business coded to UB or UBC** **\$1.7 MM**
- **Discontinue Company subsidized medical benefits for SKLOA after 12 months on leave** **\$0.3 MM**

Article 19 - Termination of Employment

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Elimination of the continuation of benefits for furloughed employees (prospective)**

\$207/emp./month

Article 25 - Recall and Call In Work

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Eliminate 2 hour guarantee for call in and pay for actual time worked at appropriate overtime rates** **\$0.1 MM**

Article 27 - General

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Eliminate Company paid cleaning of uniforms \$0.5 MM**
- **Reduce provisioning of uniforms to 6 sets (non-contractual) \$0.4 MM**

Article 34 - Sick Leave

- Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:
- Eliminate 80-day salary continuance for IOD occurrences \$5.3 MM
- Provide alternatives to SK accrual and % of sick benefit pay:
Ex:
 - 5 days accrual/yr pay @ 100% \$5.5 MM
maintain current maximum
 - or
 - 12 days accrual/yr pay @ 70% \$13.9 MM
maintain current maximum
 - or
 - 12 days accrual/yr pay @ 50% \$19.6 MM
maintain current maximum

Article 36 - Meal Periods

- **Propose restructuring of the agreement as follows:**
For the Mechanic and related agreement:
- **Eliminate the penalty lunch provision** **\$0.5 MM**

Article 37 - Severance Allowance

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Modify severance allowance**

Article 40 - Retirement Benefits

- **Standardize Retirement Plans across all employee groups** **\$9.0 MM***
- **Propose restructuring of the agreement as follows:**
For the Mechanic and related agreement:
- **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%**

* **Value for all TWU represented employees**

Article 41 - 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**

Article 41 - 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%)

Article 41- 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)**

Article 42 - Job Security

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Elimination of the system job/station protection provisions**

Article 44 - Moving Expenses/Optional Severance For Protected Employees

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Eliminate Article 44 consistent with the change in Article 42**

Article 46 - Duration of Agreement

- **Propose restructuring of the agreement as follows:
For the Mechanic and related agreement:**
- **Modify the duration clause to reflect an amendable date of 3/1/08**

Miscellaneous Mechanic and related

- Additional cost saving items (proposals reflected in slides 33 - 35) \$7.9 MM

Miscellaneous **Mechanic and related**

- **Selection of the most qualified Crew Chief/Tech Crew Chief by interview panel (Article 11,12)**
- **Pay for before and after shift training at straight time (Article 23(b))**
- **Eliminate premium pay for travel time to training (Article 23)**
- **Eliminate pay increases when downgrading positions (Article 27)**
- **Fully cross-utilize, as the operation requires, between all classifications and Title groups (Article 11) with the TWU's cooperation**
 - **AMT's for aircraft parking**
 - **Movement of parts (Stock clerk/AMT)**
 - **Inspectors perform AMT functions**

Miscellaneous **Mechanic and related**

- **Standardize Line station shift bid at 6 months (Article 21)**
- **Implement 4/10 schedules without union concurrence (Art 3)**
- **Modify Article 25(b)(5) : Early calls in excess of 4 hours will be paid with the scheduled shift.**
- **Eliminate short turn penalty driven by shift bid or rotation (Art 6)**
- **Eliminate seniority consideration for training (Art 23)**
- **Eliminate Article 25(c): 1 hour call on day off**

Miscellaneous Mechanic and related

- Limit QA TWU auditing function to bill of work audits (*overhaul bases*)
- Limit TWU TCC function to Production/MOC
- Number of RIF'd employees will be equal to the sum of the vacancies plus the employees targeted for displacement
and
- The juniority list will be resized on a one for one basis when an employee fails to receive a displacement option for any reason (Art 15)

Upside

- In the event the Company and the TWU can agree on structural changes to the AA/TWU agreements which satisfies the allocated target for the TWU represented employees, the Company proposes the following: