

**COMPREHENSIVE HEALTH CARE BENEFITS
PRE-ARBITRATION SETTLEMENT AGREEMENT**

The Company and the Union agree that health care is not only an important issue for the employees of American Airlines, but also for millions of Americans across the country. As such, we have worked together to resolve our outstanding health care disputes outside of arbitration. This letter confirms our agreement regarding the full, final, and binding resolution to the following outstanding APFA Presidential Grievances and resolves active issues related to the "Pay-As-You-Go" procedures.

2006-APFA-003 and 2006-APFA-009

The Company agrees that the Standard Medical Plan for active Flight Attendants was incorporated into the AA/APFA Collective Bargaining Agreement (CBA) during the negotiations surrounding the 2003 Restructuring Participation Agreement (RPA). The Company agrees that no changes will be made to the Retiree Standard Medical Plan for eligible retired or disabled Flight Attendants unless such changes are also made for the retirees of other unionized workgroups, are administrative in nature, or are required by law. The Company further agrees to "roll back" (i.e., reverse) the network and reduced reimbursement provisions for retired Flight Attendants using out of network providers implemented for the Retiree Standard Medical Plan as of January 1, 2007. The parties understand that the reimbursement differential will continue to exist for the Retiree Point of Service Plan (RPOS).

Further, the parties agree to reserve their respective positions, and to preserve all rights, with respect to the question of whether the Retiree Standard Medical Plan was incorporated into the CBA in the RPA; however, the Company and APFA agree to attempt to resolve this question during the next round of collective bargaining.

The costs associated with acupuncture will be reimbursed only when medically necessary for both active and retired Flight Attendants. Medical necessity will also be required for drugs and/or modalities currently prescribed for erectile dysfunction. The parties agree that prescription for the purposes of sexual enhancement does not constitute medical necessity. The foregoing is consistent with company sponsored plans for all other unionized work groups.

Based on these agreements, APFA will withdraw these Presidential Grievances.

2006-APFA-004

The parties are in agreement that the Company's retiree prescription drug coverage provides full coordination with Medicare Part D Prescription Drug Plans on all eligible expenses, including any deductibles, co-pays and eligible expenses in the "doughnut hole" provided the retired Flight Attendant submits an explanation of benefit (EOB) with claims.¹

¹ (The doughnut hole is the point at which the basic Medicare Part D Plan pays zero on eligible expenses, until the retiree satisfies the True Out-of-Pocket costs [TROOP]. The TROOP includes the Medicare deductible, coinsurance, or co-pays made by the member and any claims the member pays while in the "doughnut hole," subject to all applicable provisions of the Company's medical plans including the deductible, co-insurance, and out-of-pocket maximums).

**COMPREHENSIVE HEALTH CARE BENEFITS PRE-ARBITRATION
SETTLEMENT AGREEMENT, cont.**

The parties agree to continue to work together collaboratively to try to resolve issues that may arise with respect to the interface between the medical plans for retired Flight Attendant and Medicare Part D, such as seeking possible discounts from Company vendors for drugs covered under Company sponsored plans that are non-formulary drugs under the individual's Medicare plan, and creating procedures for reporting of secondary payments.

Based on these agreements, APFA will withdraw this Presidential Grievance.

2006-APFA-005

In the resolution of this dispute, the Company and the Union agree to meet quarterly, or more often if requested by either party, on the subject of health care. The parties agree that no changes will be made to the Standard Medical Plan for active Flight Attendants unless such changes are negotiated, are administrative in nature, or are required by law. Changes to the Retiree Standard Medical Plan for retired Flight Attendants will only be in accordance with the settlement of 2006-APFA-003 and 009 above. The parties agree to the following process for notification of changes to any medical plan option:

1. As soon as the Company determines that a change is appropriate, it will notify the President of APFA in writing. The notification will briefly state the proposed change(s) and its anticipated effect. APFA recognizes that sometimes, proposed changes are merely under evaluation and are not necessarily approved by the Pension Benefits Administration Committee (PBAC)—the governing body of the Company's Health and Welfare Plan. The Company, however, will notify APFA of impending changes not less than sixty (60) days prior to the start of the Annual Benefit Enrollment period (which normally occurs in October of each year).
2. Accompanying the notice of impending changes described in 1 above will be a detailed description of the change(s).
3. During the Annual Benefit Enrollment period, any changes will be highlighted on Jetnet so that Flight Attendants can easily discern the changes.
4. The Company will provide APFA with appropriate plan language to be inserted into, modified in, or deleted from the governing Plan documents when it becomes available. We agree that, in general, Plan documents are updated by the end of each plan year and Summaries of Material Modifications (SMM's) are mailed by December 15th of each year.

Based on this agreement, APFA will withdraw this Presidential Grievance.

2006-APFA-006

The parties agree to reserve their respective positions, and to preserve all rights, with respect to whether the Company must provide pay continuance for a Flight Attendant whose absence due to on-duty injury does not exceed the applicable statutory waiting period. APFA will withdraw this Presidential Grievance without prejudice to its position on the matter, and the Company and APFA agree to attempt to resolve this open question during the next round of collective bargaining.

COMPREHENSIVE HEALTH CARE BENEFITS PRE-ARBITRATION
SETTLEMENT AGREEMENT, cont.

2006-APFA-008

The Company and APFA agree to work together to ensure that any service issues that arise out of the Texas Preferred Provider Network (PPN) are promptly addressed. The parties will continue to work toward developing a superior Workers' Compensation network for Flight Attendants residing in Texas. The parties agree to meet at least quarterly to resolve any outstanding Workers' Compensation issues.

Based on this agreement, APFA will withdraw this Presidential Grievance.

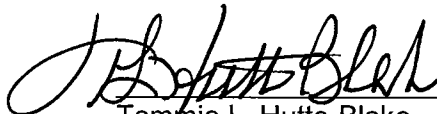
Pay-As-You-Go

(Insurance premium payment procedures for Flight Attendants on Personal Leave, Sick Leave and Injury on Duty Leaves as of January 1, 2006, and insurance premium payments for Flight Attendants who fail the 420 Threshold established with the 2003 RPA)

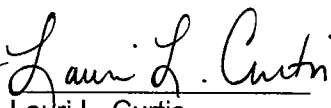
The parties recognize the overall intent of the "Pay-As-You-Go" procedures is to ensure payment of benefit premiums. As a result, the parties agree to implement the "Pay-As-You-Go" administrative procedures outlined in Attachment A to this settlement agreement.

In closing, the Company and the Union agree to explore strategic, joint legislative approaches to health care issues.

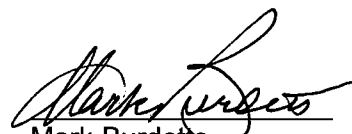
The parties recognize that this settlement results from a joint collaborative effort. Accordingly, the parties commit that communications about this settlement will reflect that joint work can produce solid results.



Tommie L. Hutto-Blake
President, APFA



Lauri L. Curtis
Vice President,
Onboard Service
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Mark Burdette
Vice President,
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American Airlines

1/17/07
Date

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Date

**COMPREHENSIVE HEALTH CARE BENEFITS PRE-ARBITRATION
SETTLEMENT AGREEMENT**

ATTACHMENT A: PAY AS YOU GO

A. Unpaid Sick or Injury On-Duty (US/IOD) Leaves of Absence

1. Greater than 30 days: January 1, 2006 - present

The Company will send a letter to all Flight Attendants that were on Sick, IOD, Maternity, or FMLA (self) leave (including, but not limited to, those identified by APFA and those who have 1st or 2nd level PBAC appeals pending or denied). The letter will give Flight Attendants the opportunity to reinstate coverage for health, dental and/or vision benefits retroactively and provide instructions on electing their 2007 benefits, if applicable. Moreover, such Flight Attendants will be offered the following options with respect to benefit payment obligations:

- a. Accrual of premiums to be taken from future payroll upon returning to work; or,
- b. Pay as they go in full; or,
- c. Partial payment with remainder taken from future payroll upon returning to work.

NOTE (1): In accordance with Group Life and Health Plan for AMR Employees and Participating Subsidiaries ("the Plan") language, pre-funding will be reinstated for anyone impacted by a leave of absence, including those who voluntarily waived pre-funding as a Life Event election and those who involuntarily waived pre-funding through failure to remit payment while on leave of absence. The Company will send a letter to each affected employee.

NOTE (2): Requirements for payment of contributory portions of other voluntary benefits (e.g., LTD, STD, Life Insurance, Supplemental Medical) remain as they were prior to 1-1-06. Disputes arising from loss of voluntary benefit(s) will be handled on a case-by-case basis using traditional appeal/dispute processes.

2. Greater than 30 days: Present – going forward

If a Flight Attendant does not process a "Going on Leave of Absence Life Event" to waive some or all coverage(s), s/he will default to her/his previously elected health, dental, and/or vision coverage(s). If a Flight Attendant elects to continue coverage(s), s/he will have the following options with regards to benefit payment obligations for health, dental and/or vision benefits:

- a. Accrual of premiums to be taken from future payroll upon returning to work; or,

- b. Pay as they go in full; or,
- c. Partial payment with remainder taken from future payroll upon returning to work.

NOTE (3): As always, the only way an individual may opt out of pre-funding is by completing a waiver document requiring signatures of the individual, his/her spouse (if applicable), and supervisor. Pre-funding contributions will be suspended during US/IOD Leaves of Absence. Contributions resume at previous applicable table rates upon the employee's return to active status.

NOTE (4): The parties will work together to develop automation for billing notice and/or payments. The Company will update relevant guides and associated packages, letters, and notices.

NOTE (5): Requirements for payment of contributory portions of other voluntary benefits (e.g., LTD, STD, Life Insurance, Supplemental Medical) remain as they were prior to 1-1-06. Disputes arising from loss of voluntary benefit(s) will be handled on a case-by-case basis using traditional appeal/dispute processes.

B. Personal Leaves of Absence (includes all voluntary leaves, e. g., PLOA, ELOA)

1. January 1, 2006 - present

In accordance with the Plan language, pre-funding will be reinstated for all, including those who voluntarily waived pre-funding as part of the Leave of Absence process and those who involuntarily waived pre-funding through failure to remit payment. Flight Attendants will no longer be able to waive pre-funding as a result of a Life Event. The Company will send a letter to each affected Flight Attendant. The Flight Attendant will have the option of:

- a. Accrual of premiums to be taken from future payroll upon returning to work; or,
- b. Pay as they go in full; or,
- c. Partial payment with remainder taken from future payroll upon returning to work.

All other procedures for benefit premiums remain status quo.

2. Present – going forward

In accordance with the Plan language, pre-funding may not be waived as a result of a Life Event. As always, the only way an individual may opt out of pre-funding is by completing a waiver document requiring the signatures of the individual, his/her spouse (if applicable), and supervisor. The individual will be given the option of:

- a. Accrual of premiums to be taken from future payroll upon returning to work or,
- b. Pay as they go in full; or,
- c. Partial payment with remainder taken from future payroll upon returning to work.

All other procedures for benefit premiums remain status quo.

C. 420 Threshold Failure (applies to Health and Dental Benefits only)

1. May 1, 2004 - December 31, 2006

Employee Services will send a letter to all Flight Attendants that have an established under-collected contribution (more than one month's contributions) as a result of not flying enough hours to collect the benefit premiums through payroll deduction. The letter will include a statement indicating that the exact amount owed may vary slightly based on recent paycheck deductions. The individual will be given the option of:

- a. Accrual of premiums to be taken from future payroll upon returning to work; or,
- b. Pay as they go in full; or,
- c. Partial payment with remainder taken from future payroll upon returning to work.

2. January 1, 2007 - going forward

The parties recognize that Flight Attendants are responsible for timely payment of benefits. The parties will meet to further discuss resolution to this issue, including, for example, the inauguration of a billing system.

Comprehensive Health Care Benefits Settlement Q & A's

Q. Which Presidential Grievances are resolved by this Settlement?

A. There are six Presidential Grievances resolved as a result of this Settlement. For a list of the language of these grievances, go to APFA's Web site and click on Presidential Grievances – Grievances Filed.

1. 2006-APFA-003 – Incorporation of the Standard RPA Medical Benefit Plan (Non-Inclusion of Retirees), filed June 2006

This Presidential Grievance was filed because the Company and APFA disagree as to whether or not the Standard Medical Plan for Retirees is incorporated into the Contract and therefore, not subject to material changes for the life of the Collective Bargaining Agreement. There is no dispute about the fact that the Standard Medical Plan (80/20) is incorporated for active Flight Attendants.

Under the terms of this Settlement, the Union is preserving its position with regards to incorporation. In conjunction with the settlement to 2006-APFA-009 this settlement means that proposed changes to Retiree health benefits will be rolled back (not implemented) and that, like APA and TWU, there will be no substantive changes to Flight Attendant retiree health benefits during the life of our current Contract.

2. 2006-APFA-004 – Unilateral Reduction in the Level of Benefits for Flight Attendant Retirees, filed June 2006

This Presidential Grievance was filed because the Company changed the prescription drug provisions for retirees by requiring retirees to enroll in a Prescription Drug Plan (PDP) under Medicare Part D.

Under the terms of this Settlement Agreement, the APFA has agreed that, as with other medical reimbursements, American Airlines is secondary to Medicare for retirees who are age 65 or over. This is consistent with the coverage for TWU and APA.

This settlement also includes a commitment by both parties to work together to find ways of maximizing retiree benefits as they relate to prescription drug coverage.

3. 2006-APFA-005 – Failure to Notice Unilateral Changes to Point-of-Service (POS) Effective January 1, 2006, filed June 2006

This Presidential Grievance was filed when the Company changed the provisions of the Company sponsored Point of Service Plan (POS) without providing the Union or its members with timely or adequate notice of such changes. (APFA does not dispute the Company's ability to make changes to the POS as it is a non-contractual plan).

Under the terms of this settlement, this Presidential Grievance is being used as a vehicle for putting in place a procedure that will be used to notify APFA when the

Company is making any changes to any of the Medical Plans (either administrative or as required by law for the Standard Plan, for Active and Retired Flight Attendants; or administrative, required by law or substantive for the company Sponsored Point of Service Plan).

It was the lack of notice of changes to the Point of Service Plan and led to the Union's decision to send out a postcard during the recent benefit enrollment period.

4. 2006-APFA-006 – Article 26 – Short Term Injury on Duty, filed June 2006

This Presidential Grievance was filed because the Company eliminated the pay continuance for Flight Attendants who are injured on the job but whose absence from work due to the IOD does not exceed the applicable statutory waiting period.

This change can and has resulted in Flight Attendants who are without sick time and who sustain an injury on duty from being paid for a trip missed because the IOD absence did not exceed the particular state's statutory waiting period.

Under the terms of this Settlement, the Union is preserving its position and the Company has agreed that this issue will be the subject of negotiations.

5. 2006-APFA-008 – Article 26D – Changes to Workers Compensation Benefits for Flight Attendants Living in Texas, filed September 2006

This Presidential Grievance was filed because the Company changed Workers' Compensation for Flight Attendants injured on the job and residing in Texas.

Under the terms of this Settlement, the Company and the Union have agreed to work together to monitor and address problems that arise for Flight Attendants residing in Texas with a quality Workers' Compensation Network.

6. 2006-APFA-009 – 2007 Proposed Changes to the Standard Medical Plan (PPO) for Active and Retired Flight Attendants, filed October 2006

This Presidential Grievance was filed because the Company made a number of changes including a network and reduced reimbursement provisions for Retired Flight Attendants as well as other changes to the Standard Medical Plan for both Active and Retired Flight Attendants.

Under the terms of this settlement, proposed changes to Retiree health benefits will be rolled back (not implemented) and that, like APA and TWU, there will be no substantive changes to Flight Attendant retiree health benefits during the life of our current Contract. In addition, the reimbursement requirements for both acupuncture and modalities and drugs associated with sexual enhancement will be the same as those for other unionized work groups on the property, e.g., TWU and APA.

The Presidential Grievance language as filed can be viewed on the APFA Web site under the link *Presidential Grievances – Grievances Filed*.

Q. What are the active issues related to the “Pay-as-You-Go” procedures?

- A.** “**Pay-As-You-Go**” came about in part as a result of 2003 Restructuring Participation Agreement (RPA) and has to do with a Flight Attendant’s obligation to pay for benefits when not working. There are two parts to the “**Pay-As-You-Go**” issue:
1. How those on unpaid leave are expected to pay for their benefits when on a non-pay status; and
 2. How those who do not meet the required 420-paid hours in a rolling twelve month look-back period will pay for their benefits?

One of the items resolved is the reinstatement of health care benefits for some of our members who were/are on long-term unpaid sick or IOD. Unbeknownst to these FAs, they were required to follow the same steps to ensure retention of their health, dental and vision coverage as those FAs who took voluntary leaves of absence and who presumably had the ability to plan for any adjustments necessary for coverage while on a planned Unpaid status. APFA has been attempting to resolve 26 individual disputes that involved compelling personal hardships for those FAs affected by the changes to the **Pay-As-You-Go** process implemented on January 1, 2006. Although the intent of these changes was to ensure current payment of benefits, not to terminate coverage, the end result was a loss of health care benefits for dozens of our members. This settlement will reinstate coverage retroactively including necessary reimbursement of any interim health care benefits.

Prefunding of Retiree Medical Benefits was also included in the **Pay-As-You-Go** process on January 1, 2006 and resulted in many of our members who were either on unpaid sick, IOD or even a Personal Leave of Absence having their pre-funding cancelled. Following review of the plan language for pre-funding, pre-funding will no longer be able to be waived as a result of a Life Event, when going on a LOA greater than 30 days. In addition, this change will be retroactive to 1-1-2006 and will reinstate pre-funding for all affected FAs who lost pre-funding.

This settlement will “roll back” to January, 1 2006, and reinstate benefits, including pre-funding, for all affected Flight Attendants

New “Pay-as-You-Go” procedures for Flight Attendants who fail the annual 420-hour requirement are in the process of being developed. This settlement will ensure that APFA is a part of the development of those procedures.

GENERAL QUESTIONS

- Q.** I am a retiree and have used my health care benefits since January 1, 2007. Do I need to do anything to ensure my claims are reimbursed properly as a result of this settlement?
- A.** Due to the fact this resolution was reached so early in 2007, most claim reimbursements should be done at the 80/20 rate. If you receive your Explanation of Benefits (EOB) and find that coverage was at the 60/40 rate, contact United Health Care (UHC) to reprocess your claim. If you have any difficulties reprocessing the claim, contact Employee Services via Jetnet or at 800-447-2000.
- Q.** Why does the section of the Settlement Agreement document on the Web site state that 2006-APFA-003 and 2006-APFA-009 will result in no changes to the Retiree Medical Plan but the Settlement to 2006-APFA-005 outlines the process for “notification of changes?”

A. 2006-APFA-009 was filed by APFA to protest the change resulting in the reduction of health care benefits for both active and retired Flight Attendants. There are other changes the company could make that would not result in a reduction of benefits for FAs. For example, if another company were to put in a more competitive offer to serve as the administrator for our health plans, the company could make that change as it would not be considered a reduction in benefits.

Q. **Are the changes we have agreed to regarding reimbursement for acupuncture and sexual enhancement drugs different from the other unionized workgroups on the property, e.g., APA and TWU?**

No. Coverage and reimbursement levels are the same for all workgroups.

PAY-AS-YOU-GO QUESTIONS

Q. **How will I know if I am affected by Pay-As-You-Go part of the remedy contained in this Settlement?**

A. Currently all of the individual FAs affected have not yet been determined. Employee Services is in the process of identifying those FAs who were off payroll over 30 days due to US, IOD, Maternity, FMLA (self). Affected FAs will be sent a letter advising how they can reinstate coverage retroactively and elect 2007 benefits, if applicable. Employee Services will mail a letter to those affected no later than February 17, 2007.

Employee Services will undergo a similar process to identify those FAs whose pre-funding for Retiree Medical Benefits were impacted by a Leave of Absence greater than 30 days. Affected FAs will be sent a letter no later than February 17, 2007, advising that Pre-funding has been reinstated and outlining the various premium payment options.

Q. **What should I do in the meantime?**

A. Ensure your address is up-to-date with Employee Services. You can view your current address information on Jetnet by looking at the **About Me** section on the lower left corner of the home page. To edit your address information select **Update My Contact Info**. Letters will be mailed to the address listed as alternate. If an alternate is not indicated, then the letter will be sent to your permanent address.

Q. **What do I do if I need my health benefits back immediately due to a serious health condition that requires medical attention now?**

A. Call the APFA health desk with your name, employee number, and details. You may also Live Chat with Employee Services or contact them by phone at 800-447-2000

Q. **When my benefits are reinstated, how do I get my past bills reimbursed?**

A. When benefits are reinstated they will be done back to the point of cancellation. You should contact UHC to arrange a review of unpaid medical bills in order to have them paid. The letter you receive from Employee Services will include instructions regarding how claims will be reprocessed and how to submit claims if necessary.

Q. **What type of benefits will I have?**

A. You will have the medical, dental, vision and/or pre-funding elections you opted for in 2006. See Attachment A for details regarding other optional coverage.

- Q. Why is pre-funding being reinstated and not other voluntary health benefits (e.g. LTD, STD, Supplemental Medical)?**
- A.** Premium payment requirements for voluntary benefits such as Supplemental Medical while off payroll (US/IOD or PLOA over 30 days) did not change as a result of the 2003 RPA or 1-1-2006 changes to the "Pay As You Go" process. The requirement to make payments for voluntary coverage(s) while on LOA existed prior to 1-1-2006. On 1-1-2006, three changes occurred with regards to Pre-funding. First, a FA was able to waive or cancel Pre-funding as a result of a Life Event. Second, FA's who did not make payment had their Pre-funding cancelled. Third, FA's on US/IOD were required to make payments. After further review of the actual Plan language with respect to Pre-funding and in order to be consistent with that language, FAs will not be able waive or cancel their prefunding as a result of a Life Event. In addition, FAs will be afforded the option to make partial or full payment of pre-funding premiums while on a voluntary leave of absence. However their pre-funding will not be cancelled if they do not do so. Rather the premiums will accumulate and be deducted once they return to work and earn a paycheck. FAs who are in an unpaid status due to US/IOD will have their pre-funding contributions suspended during that time period.
- Q. When can I sign up for my 2007 benefits?**
- A.** This information will be included in the letter from Employee Services to affected FAs.
- Q. How many Flight Attendants will have their Health Care coverage restored as a result of this settlement?**
- A.** Currently we do not have a complete list of all those who have been adversely affected by the pay as you go policy. We will be receiving a list from the company in the coming days. What we do know is that we had 26 F/A cases all of which had varying degrees of adverse impact to the F/A and their families lives due to the loss of health benefits. One can only imagine the difficulty of being ill, injured or pregnant and then suddenly loosing your health benefits. For those who needed medical care such as surgery in order to come back to work, could not get it without the medical coverage but they could not get the coverage without coming back to work
- Q. I have not flown enough hours to meet my threshold for company subsidized health benefits for many months. There is no way I can pay the full amount of my accrued premiums. What options do I have?**
- A.** Around the end of January 2007 the company will send a letter advising FAs who have outstanding balances for health care premiums due to failure to maintain their 420 (or applicable) threshold advising them of the full amount of premiums owed up to 12-31-2006. You have the option of paying the amount in full, or making partial payments or have the amount owed payroll deducted upon return to work. Many FAs prefer to make partial payments, so that when they do return to work the outstanding balance does not absorb an entire paycheck(s).
- Q. I understand there is a change to premiums owed for failure to maintain a 420 hour (or applicable) threshold beginning 1-1-2007. What exactly is the change?**
- A.** Consistent with the intent of the introduction of the 420 Threshold in the RPA the company will begin sending a notice to FAs who fail the 420 (or applicable) threshold more than 2 months in a row who are not flying enough hours to cover the cost of their benefits. An interim billing process will be used until the Employee Receivables Department can take on this task. The interim billing process which is under development will be used for 2007. Employee Receivables should begin handling this process in late

2007 or early 2008. It is hoped they will be able to provide services such as direct payment from bank accounts and/or ability to pay using credit or debit cards. Employee Receivables has been processing travel benefits for retirees and inactive FAs for a number of years.