THE ASSOCIATION OF PROFESSIONAL FLIGHT ATTENDANTS

SKYword Express

SUMMER 2005

EXCLUSIVE:

PENSION Q&A'S

THE FUEL CRISIS

WRIGHT AMENDMENT

Summer 2005

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FIVE MINUTES ON PENSIONS

with Patrick Hancock, APFA's Pension Expert

***Skyword** (SW) recently caught up with Patrick Hancock, one of APFA's two Pension Specialists, on the flight back from the Fly-In to Washington, D.C.*

SW: So how did the lobbying event go?

Patrick Hancock: It went well! It felt good to be working with so many fellow American Airlines' union members again. But, to tell you the truth, it was a little surreal at times, having AA management sitting on my side of the table, saying the same things we were saying and arguing for the same issues. As a former member of the APFA Negotiating, Team I'm not used to that. I guess it was a little out of my comfort zone, but I'm glad to see it happening.

SW: It's my understanding that our pensions are currently only funded to 80%. Is that correct?

PH: 80%? Yes and no. There are currently no less than seven different ways in the law to value pensions. Each is perfectly valid and measures pension funding a slightly different way. The seven formulas say that our pension is currently funded at somewhere between 63% and 109% of what is needed. I am sure that one of them must answer somewhere near 80%.

SW: Let's use simple math: How do they come up with so many different answers?

PH: The difference in value comes from finding different answers to the many pension-related questions:

How much interest will you earn on your savings for the next 30 years?
How long will you live?
How long before you retire?
How much will you make between now and when you retire?
Will you have a living spouse when you retire? If so, how long will s/he live?

It doesn't take much of a change in any of these answers to change the projected outcome 30 or so years down the road.

SW: Ok, so we are some percentage underfunded. Is it true that Senate Bill 861 you were lobbying for will allow the company to underfund for 25 years?

PH: The bill will keep changing until it is passed, and it is far from perfect, but today it gives the employer 7, 12 or 25 years to get caught up.

> "THERE ARE CURRENTLY NO LESS THAN SEVEN DIFFERENT WAYS IN THE LAW TO VALUE PENSIONS. EACH IS PERFECTLY VALID AND MEASURES PENSION FUNDING A SLIGHTLY DIFFERENT WAY."

SW: I think you were on the Hill too long, Patrick. Explain the three different targets.

PH: The bill divides underfunded pension plans into two groups; the plans that keep going and the plans that choose to freeze where they are with what they have today. A company that wants to keep a plan going but whose plan is underfunded by today's standards will have seven years to catch up on any past due amounts. It's kind of similar to getting behind on your mortgage payments then working out a deal with the bank that would keep you current on your upcoming payments while giving you a little extra time to clear up the past due payments.

That is the seven-year target. Once the plan gets caught up, the Feds will then move the target, from today's 90%-funded requirement to a new target of 100%-funded requirement. They then will give five additional years to make it to the new target, and that (7 + 5 = 12) is the 12-year target.

SW: So in "Washington speak," 90% funded is fully funded?

PH: Yes. Do you want to hear how they describe deficit spending?

SW: No, thanks. Keep going.

PH: For the other group of plans, this legislation gives employers and unions an additional option when they are severely financially stressed. Currently, the only real option is the termination of the plan. Under termination, the years of service you have as of today are frozen and the plan goes to the Pension Benefit Guarantee Corporation (PBGC). Your benefits are recalculated using PBGC rules, not your contract rules, and you are locked into that new benefit forever. S. 861 says that if a union and its company agree, they can freeze the pension and NOT turn it over to the PBGC and then the employer has 25 years to "catch-up" on any unfunded obligation. This allows the employee to keep the benefits as agreed to under their contract.

This is particularly important to people who retire "early." Under our plan, you can retire at age 60 and get full retirement benefits. If you retire before age 60 you take a 3% per year reduction for every year below 60. Under the PBGC rules, if you retire before age 65, you take an actuarial reduction (I think it is something like 6%) for every year before age 65. So if you leave at age 55, under our rules you take a 15% (3% X 5 years) reduction in your pension. Under the PBGC rules you take a 60% (6% X 10 years) reduction in your pension. Ouch!

Pilots, by law, must retire at age 60, five years "early" according to the PBGC, so that is an additional 30% reduction right there.

If a company has no choice but to end a plan, it is far better to freeze it and keep it under your contract rules than to terminate under the PBGC rules.

SW: What is the benefit of the 25-year amortization period? If the employer doesn't have the money, they don't have the money, right?

PH: If an airline (or other employer) has hundreds of millions of dollars due that they really cannot pay today, they might think the only way out is to dump the pensions on the PBGC, bilk their employees in the process and get out of the pension business. This extended amortization period lets them pay that shortfall out over 25 years - and most employers can live with that. To most managers, 25 years might as well be an eternity.

SW: I understand AA's desire to spread out our payments, but why would we support a freeze? Doesn't that just offer a temptation to our management to try and get us to freeze our pension as well?

PH: Well, that portion of the bill does not affect us at this point because we are not in those financial straits. It does, however, affect our brothers and sisters at places like Delta and Northwest. We want to support those labor groups for several reasons:

1. It is simply a bad precedent to have other carriers completely dumping their pension costs. You know the lemming mentality of some managers!
2. To dump the pensions, the other carriers will have to go into bankruptcy, and that allows them to lower a lot of other costs, including wages. We don't want them to go there again.
3. Every pension dumped on the PBGC weakens the fund, and if we ever need the PBGC, we want the fund strong enough to pay our benefits.
4. If things get really bad here at AA, like if oil goes to $75 a barrel, we may want to have this option in the future to lock in what we have and not lose it to the PBGC.

In any case, the employer still has to get the employees to agree to the freeze. There may be other bills coming out of House and Senate Committees. We'll be watching closely.

SW: I understand now why we want to avoid the PBGC. I guess what I am unsure about is how a company will be able to fund your pension if they are currently underfunded and if they have 25 years to catch up? How are they going to keep the pensions going if there isn't enough to pay for those retiring?

PH: Good question. Look at it like this: If you have to pay pensions out for the rest of this employee group's life, it's probably over a period of 40-60 years. If we were only 80% funded and needed $1 billion in the fund today to pay out over the next several decades, that means that there is $800 million in the fund today. Even if everybody starts drawing

> **"Today, we are the strongest of all the network carriers. I, for one, want to keep it that way so I can get the full pension I've earned."**

today, (and most of us can't start drawing until retirement age) you will have to go a long time before you get to the point where you have paid out the entire $800 million and need that last $200 million to pay out. In that scenario, 25 years is reasonable.

SW: What if things get worse - won't there be a period in the 25 years that they might have to dump the pensions into the PBGC anyway?

PH: Yes, there is a danger that those plans that elect the 25-year pay back might later need to turn the pension over to the PBGC. That is why the PBGC insists on the freeze. The liability stops growing with a freeze. In the above scenario, the PBGC would be on the hook for the full $200 million if the plan was terminated today. **But**, if the company has paid back $50 million before dumping the plan on the PBGC at some point down the road, then that is $50 million less that it costs the PBGC. Since the amount that beneficiaries get out of the PBGC is partially driven by how "short" the plan is when it's terminated, the employees are better off to have gotten some of those extra payments into the plan before termination. There is that risk of later termination. But for the truly desperate work groups like the NW and DL pilots, it is pretty much a choice between taking that risk for the future, or going to certain plan termination today. Easy choice.

SW: You seem optimistic about American Airlines' future. Do you think we have avoided bankruptcy?

PH: For the moment. I don't think management wants to go into bankruptcy because of the incredible costs, but mostly because they lose control in a bankruptcy. You know how our managers feel about being in control. I agree with most of the analysts that AA will be the last network carrier standing. I do not think, however, that guarantees that we will remain standing. If oil goes to $75 a barrel, I think all of the carriers in the US will be in bankruptcy. But you can only work to improve things based on the reality of today. Today, we are the strongest of all the network carriers. I, for one, want to keep it that way so I can get the full pension I've earned.

SW: Thanks, Patrick. You can go back to sleep now.

THE LONG ROAD TO PENSION REFORM LEGISLATION

by Jill Frank, APFA Retirement Specialist

APFA members and leaders were in Washington, D.C., recently working side-by-side with American Airlines' union and non-union employees to influence the lawmakers who will draft and vote on legislation concerning pension reform.

The creation of legislation is a process that takes time and multiple steps. Here's how it works:

1. *The need for government participation on a particular issue is identified*
2. *Legislation dealing with the issue is formulated*
   a. *The House drafts a bill*
   b. *The Senate drafts a bill*
3. *Each bill is voted on in the subcommittee and full committee with jurisdiction over that particular issue, and then it goes to the floor of the House or Senate for a vote*
4. *In conference, the two chambers combine their efforts to produce a final proposal*
5. *Identical bills passed by both houses of Congress are sent to the president to be signed into law. If the president vetoes the final bill, it goes back to Congress for a vote in both houses in an attempt to override the veto*

People who are elected to office are not necessarily experts in all fields, so once an issue has been identified they begin the process of expanding their knowledge through research by staffers and a series of hearings. Although all congressional members may be interested in learning about a topic, there are specific committees with jurisdiction over each area. The committee chairperson will schedule a hearing and invite a number of people representing different aspects of an issue to participate. Any member of congress may introduce legislation but the ones most likely to introduce pension reform legislation are members of the following committees:

SENATE

Finance: **http://finance.senate.gov**

Chair: Sen. C. Grassley (R-Iowa)
Ranking Minority: Sen. M. Baucus (D-Montana)

Health, Education, Labor & Pensions: **http://help.senate.gov**

Chair: Sen. M. Enzi (R-Wyoming)
Ranking Minority: Sen. E. Kennedy (D-Massachusetts)

HOUSE

Ways & Means: **http://waysandmeans.house.gov**

Chair: Rep. W. Thomas (R-California)
Ranking Minority: Rep. C. Rangel (D-New York)

Education & Workforce: **http://edworkforce.house.gov**

Chair: Rep. J. Boehner (R-Ohio)
Ranking Minority: Rep. G. Miller (D-California)

Since March, there has been a flurry of activity on the question of pension reform. There have been bills introduced and hearings held leading to the introduction of legislation. Details and saved webcasts of these hearings are available on the websites listed above.

At times, there is plenty of notice about a planned hearing; other times they are held on what seems like the spur of the moment. Joan Wages, APFA's lobbyist in Washington, has monitored all of this activity and continues to keep us "in the know" about pending hearings. We have attended some, watched some via live web cast, studied the written testimony of some and watched others after the fact on C-Span.

Generally, each member of the panel prepares a statement that is partially presented during the hearing then entered into the permanent record in written form. The senators or representatives are allowed a set amount of time to ask questions. The result is fascinating if you are a legislative junkie (like I'm becoming).

On the Senate side, S. 861 - known as the Airline Bill - was introduced by Senator Johnny Isakson (R-GA) who serves on the Senate Health, Education, Labor and Pension Committee and who represents thousands of employees at Delta. Both Delta and Northwest are lobbying for passage of this bill that offers a 25-year period to contribute make-up funding to underfunded pension plans but requires that a plan be frozen in order to take advantage of this. Although we are not moving to block this legislation, it doesn't offer the relief we are seeking with our combined efforts. The committee held a hearing on April 26 that we attended. As this bill does not deal with the bigger picture of overall pension reform, it has run into obstacles on the House side because it is "industry-specific" legislation. Nonetheless, it was an impetus to begin information gathering.

On June 7th the Senate Finance Committee convened a hearing on the following subject: *Preventing the Next Pension Collapse: Lessons Learned from the United Airlines Case*. There were two panels; the first one was comprised of government representatives who are concerned about the viability of the Pension Benefit Guaranty Corporation (PBGC). The second panel consisted of Glenn Tilton, CEO United Airlines; Douglass Steenland, President and CEO Northwest Airlines; Gerald Grinstein, CEO Delta Airlines; Duane Woerth, International President Airline Pilots Association (ALPA); Patricia Friend, International President Association of Flight Attendants (AFA-CWA); and Robert Roach, General Vice President International Association of Machinists and Aerospace Workers (IAM).

You may be wondering why we weren't invited to this party of "who's who in the airline business." The difference between 'us' and 'them' is that the companies that were invited are all close to or in the process of terminating their defined benefit plans. On the other hand, we are working to keep ours! The senators asked very pointed questions that were quite critical of the actions being taken by these companies. Our CEO, Gerard Arpey, sent a letter to the committee asking that they consider AA's Labor/Management approach to save our plans when drafting legislation and that we be allowed to submit comments for the record. The Senate has yet to introduce comprehensive pension legislation. There was also a letter forwarded to the Committee co-authored by the three unions and AA management giving very specific suggestions regarding pension relief. In this letter, we "noticed the Hill" that on June 22, 2005, AA's management and Labor groups would be coming to DC together to discuss these specifics.

Alternatively, on the House side, the Education and Workforce Committee has been very busy. Representative Boehner (R-OH), chairman of the committee, introduced HR. 2830. This bill offers comprehensive legislation on the pension issues identified by President Bush in January as needing attention. There have been a number of hearings held and this bill actually went through subcommittee markup (a Hill term meaning a vote in the subcommittee or full committee) on June 22nd, the day we were all in Washington for the Fly-In. The bill then passed out of full committee on June 30th.

In its current form, this bill deals with nearly all of the issues we are interested in and has many provisions that we support. During the Fly-In there was a scheduled meeting between Representative Boehner and our team of union and company activists. We were with him for about half an hour and the following week, when the legislation came up in full committee, there was direct evidence indicating that he had heard some of our concerns!

"You may be wondering why we weren't invited to this party of "who's who in the airline business." The difference between 'us' and 'them' is that the companies that were invited are all close to or in the process of terminating their defined benefit plans. On the other hand, we are working to keep ours!"

We continue to monitor activity in Washington and will attend or review the hearings that deal with this important issue. On June 22nd, while we were in Washington, there were two different hearings; one by the Aviation Subcommittee of the House Transportation and Infrastructure on the subject, *Avoiding Further Collapse in the Airline Industry*, and the other was a mark-up on H.R. 2830 in the Subcommittee on Employer-Employee Relations of the House Education and Workforce Committee. Many of the employees who had come to Washington were able to attend these hearings and commented that it was very exciting to observe our government at work.

Please continue to monitor apfa.org and Jetnet for actions that you can take to help us deliver our message to Congress. It becomes more apparent every day that we can make a difference!

Joint Pension Statement Excerpts

By Joan Wages, APFA's Lobbyist on the Hill

The following are excerpts from the Joint Pension Statement delivered to the Hill by APFA, APA, TWU and AA management. It outlines the key points we support jointly regarding pension reform legislation.

"Currently, several bills have been introduced that address various pension issues. Other bills are yet to come. We, the employees, unions and management of American Airlines, are in Washington today as a unified group, to seek your support for responsive legislation that corrects the problems with the current law while recognizing the needs of both management and employees. To that end, we are using the bill introduced by Chairman Boehner for himself and Chairman Thomas as a baseline since it is the major pension reform legislation that most closely reflects our views. This bill – H.R. 2830 - amends the Employee Retirement Income Security Act (ERISA) of 1974 and the Internal Revenue Code (IRC) of 1986."

The Pension Protection Act - How It Helps American Airlines and Its Employees

Yield Curve

The Pension Protection Act establishes minimum-funding standard changes to both ERISA and IRC that appear helpful. The use of a yield curve and three categories or "buckets" from which to draw when determining liabilities and, therefore, contributions is an innovative and practical way to address funding. We believe the modified yield curve approach of H.R. 2830 should maintain a difference in treatment of contribution and lump sum pay outs that recognizes the different time and risk horizons of corporations and individuals. The substitution of a single liability measure as opposed to the current seven measures is appropriate.

PBGC

We endorse the gradual phase-in of a higher PBGC base premium and the indexing of the variable premiums that will improve the funding levels of the PBGC while minimizing corporate expense during this transition.

Standards

We applaud the elimination of any suggestion that standards should be based on the rating of a plan sponsor's debt. The health of any particular plan is dependent on the funding of that plan – not the bond rating provided by some unaccountable rating agency.

Smoothing

We support a smoothing of the asset levels to avoid the volatility of the plan's asset levels and subsequent funding levels.

Increased Contributions

We strongly endorse the provisions allowing for increased permitted contributions to fund in good times in anticipation of more difficult economic conditions later.

Timelier Disclosures

The requirements for better and timelier disclosures and restrictions on the amount of sponsor stock in a plan are helpful and appreciated.

The Pension Protection Act – Room for Improvement

Funding Requirements

While we support the 100 percent funding target that the Pension Protection Act mandates, the state of our industry will require an amortization period longer than seven years to reach that target. We believe that shorter amortization periods may result in unintended plan terminations. We support allowing 15 years to reach a funding level of 100 percent – requiring any plan freeze – as a more suitable approach.*

Conclusions

We believe the proper way to deal with the pension problems of the airline industry is through comprehensive pension plan reform. Therefore, we favor the approach taken by the Pension Protection Act with the improvements indicated. American Airlines and its pension plans are not in the positions faced by other network carriers. We understand the need for relief sought by these carriers and their employees in the Isakson (S.861) and Price (H.R.2106) Bills. However, this is a matter to be worked out among Congress and the parties that are facing these different challenges.

We favor a six-month moratorium as stipulated in the Miller (H.R. 2327) and Kennedy (S.1158) Bills to provide some breathing room for severely distressed employers and their plans. We also favor as much transparency and information as possible as proposed by the Miller and Kennedy Bills.

Comprehensive pension plan reform is a crucial issue for the hard-working men and women of this country. We believe that the Pension Protection Act sponsored by Chairman Boehner for himself and Chairman Thomas provides a solid framework for reform.

American Airlines and its employees have distinguished themselves by responding to a rapidly changing industry without seeking government assistance or resorting to judicial

***Editor's Note: If a Plan is frozen, we support changes to ERISA that would include allowing 15 years to reach the 100% funding level.**

"WE ARE ASKING CONGRESS TO RECOGNIZE THESE EFFORTS BY SUPPORTING SENSIBLE PENSION REFORM THAT WILL ALLOW AMERICAN AIRLINES TO CONTINUE TO MEET ITS PENSION OBLIGATIONS"

restructuring. We're working hard to serve our customers, improve our operations and increase efficiency throughout our company, and we've made tremendous progress. As a result, we are routinely cited by industry experts as the network carrier that is doing things right. We are asking Congress to recognize these efforts by supporting sensible pension reform that will allow American Airlines to continue to meet its pension obligations.

Gerard J. Arpey
Chairman & CEO
American Airlines, Inc.

Tommie L. Hutto-Blake
President
Association of Professional Flight Attendants

John M. Conley
AA System Coordinator
Transport Workers Union

Captain Ralph Hunter
President
Allied Pilots Association

Postscript: *The Pension Protection Act was voted on and passed out of subcommittee and full committee, mostly on a party-line vote.*

Next Step: *Chairman Boehner announced that his bill will be rolled into a larger bill containing reform of Social Security, a highly contentious topic. If the Social Security bill does not move, Boehner said that he will then move his Pension Protection Act by itself. It will be Fall before this larger bill comes to the House floor. Updates will be posted on the APFA website.*

AA Employee Pension Rally

By Tony Leonhardt, LAX Flight Attendant

"My colleagues here tonight know that I have had a vision - seeing an agent next to a fleet service clerk, next to a Flight Attendant, next to a pilot, next to a mechanic, next to a 'suit,' walking the Hill together, telling our story - a joint story - that we want to be given an opportunity to protect our negotiated retirement benefits. Today, you have made my vision a reality."
- Tommie Hutto-Blake, APFA President

AA lobbyists entering the Rayburn House Office Building
June 22, 2005 Fly-In

The quote above garnered a standing ovation for Tommie as she spoke at a rally on June 22, 2005, on Capitol Hill in front of more than 300 AA employees. Union, non-union and management alike were gathered together for the first time ever, to lobby the US Congress for pension reform. The room was overflowing with members of the press and a group of Texas representatives gave those in attendance a rallying cry. And, the day only got better.

It actually began the day before when American Airlines employees boarded two chartered AA jets, from DFW and ORD staffed with volunteer Flight Attendants, flown by volunteer pilots and serviced by volunteer fleet service and mechanics. Everyone involved was on a day off, not on company time. Both airplanes were greeted at IAD with arches of water showered upon them by the Airport Fire Department while dozens of IAD employees cheered us on from inside the terminal. But no time to stop and chat!

Tommie addressing Fly-In participants
June 22nd Fly-In

All were then ushered to buses waiting outside and whisked downtown to American University to check into shared dorm rooms. Let's say it wasn't

Jaimie McNeice and APA Representative meeting with Congress
June 22nd Fly-In

exactly the Ritz but hey, the price was right. After checking in and obtaining our lobbying packets we were sent to a jam-packed meeting hall for a reception and rally lead by CEO Gerard Arpey and union and non-union representatives. There was so much excitement in the room that it made it hard to leave and hit the sack for that 0530 pick up the next morning.

"Our "Sea of Blue" is incredibly effective as witnessed by all that has happened since our day of joint lobbying. The Pension Reform Bill we were lobbying for passed in the House and the House surprised us by tacking on legislation to a spending bill, throwing a wrench into the UAL/PGBC Pension deal."

By 0715 we were there, on the Hill, clearing security and heading into the Rayburn House Office Building for the rally with the press and legislative delegations. Soon afterwards we were given our assignments and we teamed up with our colleagues from the other work groups to hit the

Jessica Washington, JFK Vice Chair rt.; Deb Murphy, 2nd from right; and two fellow F/A's waiting for briefings
June 22nd Fly-In

Representatives from each workgroup attending rally before lobbying -
June 22 Fly-In

ground running. It was only 0930!

I was a group leader so I rounded up my team from APFA, APA, TWU and AA Cargo and we headed out for our first appointment, a “drop-by” (meaning we had no appointment) with Congressman Buck McKeon, (R-CA). Fortunately, we actually ran into him in the hall outside of his office on his way to the House Education and Workforce Committee meeting where pension reform was going to be discussed. He was cordial and listened to what we had to say and we asked if he would look at our handout on his way to the meeting. He took the material and went on his way.

My team was then able to attend that very meeting where we witnessed Congressman McKeon vote YES on the Pension Protection Act (H.R. 2830), the bill we were lobbying for. I ran into him again in the hall afterwards and he gave me a nod. It suddenly occurred to me that this lobbying thing actually works!

Patrick Hancock, APFA’s Pension Expert and APA Secretary-Treasurer Jim Eaton
June 22nd Fly-In

Then it was on to our next appointment with Ellen Tauscher (D-CA). Congresswoman Tauscher sits on the Aviation Subcommittee and was to appear later that day at the committee’s hearing on the “*Financial Stability of Airlines*.” We arrived at her office early and were waiting outside when a lovely woman walked by us in the hallway and asked if we were there for the

> "All agreed that pension reform legislation is so significant that it was worth taking two days to go to Capitol Hill to talk with legislators about our concerns. All employees were on days off including the pilots, Flight Attendants and mechanics working the charters."

Tony Leonhardt - LAX OCR; and Cathy Lukensmeyer, APFA Treasurer
June 22nd Fly-In

"American Airlines" meeting. We said yes but that we knew we were early. She said she was returning from lunch but would be right back to take us in – she introduced herself as Linda Daschle - the former Minority Leader's wife and top airline lobbyist. We were taken inside the Congresswoman's office and along with her top aide, Paul Kidwell, discussed, at length, AA and its employees' concerns. I believed it to be a very productive meeting; mission accomplished. But, I kept wondering why we were being held there in the office so long while the meeting appeared to be over. These meetings are supposed to be short and sweet, right? Suddenly, another aide appeared and told us the Congresswoman was held up because of a vote and asked if we could meet her at the Capitol. He said she really wanted to speak with us. We all looked at each other in disbelief and said "Um, sure, yes, of course."

AA's VP of Legislative Affairs Will Ris; AMR CEO Gerard Arpey; Joan Wages, APFA's Lobbyist on the Hill; and President Tommie Hutto-Blake, right
June 22nd Fly-In

Congresswoman Tauscher was a delight and, after another lengthy discussion, assured us she was on our side. We spoke for about 20 minutes then the bells rang and she was, yet again, called in for a vote. So Paul and Linda asked us if we wanted a tour of the Capitol Building. We said "Um, sure, yes, of course." Afterwards, Linda asked if we would like to attend the Aviation Subcommittee Meeting and she personally

EDITOR'S NOTE: THE FOLLOWING PHOTOS WERE TAKEN DURING APFA'S "WE'RE RESTLESS" FLY-IN ON MAY 11TH.

Jill Frank, APFA's Retirement Specialist; F/A; Anne Loew, APFA Legislative Rep; Rick Musica, APFA Legislative Rep and Joan Wages, APFA's Lobbyist
May 11 Fly-In

escorted us there where we were able to see Ellen Tauscher in action. It was an amazing day! Before we knew it, it was back to the buses, back to the planes, back home again, back to our own beds, and back to "real" sheets.

I hope from my synopsis you can see how important it is to step up to the plate when APFA asks us, the membership, to tell our stories on the Hill. Our "Sea of Blue" is incredibly effective as witnessed by all that has happened since our day of joint lobbying. The Pension Reform Bill we were lobbying for passed in the House and the House surprised us by tacking on legislation to a spending bill, throwing a temporary wrench into the UAL/PGBC Pension deal. AFA thanked us on their hotline for our hard work.

Was it worth a couple of my days off for this? You bet it was!

Rep. Mike Honda addressing APFA Flight Attendants on F/A fatigue
May 11th Fly-In

JOINT FLY-IN TO WASHINGTON

By Joan Wages, APFA's Lobbyist on the Hill

Colleen Brenner, IDF Chair; Chris O'Kelley, DFW Chair; Judy Milne, IDF Vice Chair; Cheryl Walters, Ad Hoc; and Senator Hillary Clinton
May 11th Fly-In

On Tuesday, June 21, several hundred AA employees gathered in Chicago and DFW to board aircraft headed for Washington, D.C. Some employees had flown in from other destinations; some were local. All agreed that pension reform legislation is so significant that it was worth taking two days to go to Capitol Hill to talk with legislators about our concerns. All employees were on days off including the pilots, Flight Attendants and mechanics working the charters. More employees than could be invited signed up to participate. Employees were chosen by residence to ensure that employees from key states and districts were included.

After arriving in Washington, the participants were taken to American University where all heard from AA CEO Gerard Arpey and the three union leaders - APFA President Tommie Hutto-Blake, APA President Ralph Hunter and TWU's John Conley. AA's Senior VP of Government Affairs Will Ris outlined lobbying protocol and the talking points relating to what we would like to see in pension reform legislation. The university dorms left all dreaming of a layover hotel. So, with little sleep but in good spirits, all headed to Capitol Hill very early on Wednesday morning.

John Nikides, LAX Chair; Dana Davis, SFO Chair' and Tony Leonhardt, LAX OCR
May 11th Fly-In

Over 300 employees including Flight Attendants, pilots, mechanics, rampers, ticket agents and members of management met in a Capitol Hill room. It spilled over with employees and media covering the event. Tommie, Ralph Hunter, John Conley and Gerard Arpey spoke about the significance of this Fly-In – labor and


Brent Peterson, APFA Contract Coordinator and Peggy Turley, RDU Chair
May 11th Fly-In

management working together to maintain the defined benefit pension plans at American Airlines.

Employees visited over 200 Capitol Hill offices while the three union presidents joined by Will Ris and AA's Senior VP of Human Resources Jeff Brundage met with Senator Mike Enzi (R-WY), Chair of the Health, Education, Labor and Pensions Committee; as well as the pension staff for Senator Charles Grassley (R-IA), Chairman of the Finance Committee; and Representative John Boehner (R-OH), Chairman of the Education and Workforce Committee. These senators and representative are key players on committees with jurisdiction over pension issues.

Editor's Note: *This June 22nd Fly-In was no small feat. Over 30 people worked behind the scenes for six weeks to make it happen. The event was a huge success – Capitol Hill now knows that American Airlines is different from the other major carriers and they know what we need from Congress to keep our pension plans viable. This event generated a great deal of media attention and we would like to thank Lori Bassani, APFA's Public Relations Representative, our Washington lobbyist Joan Wages, our pension experts Jill Frank and Patrick Hancock and our Legislative Affairs Representative Rick Musica for their hard work putting this event together. Also, we would like to thank the APFA members who volunteered to work the charter flights from Dallas and Chicago to Washington. And finally, a special thank you to all of our members who took time out of their busy schedules on a day off to travel to Washington, D.C., to join us in this important effort.*


Kim Boyett, Division Rep; APFA Secretary Greg Hildreth, InfoRep Denise Pointer; APFA's Parliamentarian and fellow F/A
May 11th Fly-In

WHO'S ON YOUR SIDE IN CONGRESS… IN OUR EFFORTS TO COMBAT FATIGUE

REPUBLICANS

DEMOCRATS

Following APFA's Lobby Day on May 11th against Flight Attendant Fatigue, the 145 Representatives on the next two pages signed a letter requesting funding for a detailed study of the causes and effects of Flight Attendant fatigue; all in the hopes of proving to the FAA that minimum rest periods must be changed. Those Representatives are listed below. 132 Democrats signed the letter and 13 Republicans. If your member is on the list, please take a moment to thank them. If not, please note who was on the side of Flight Attendants in our efforts to fight fatigue when elections come around.

Special thanks to the AFA-CWA for their help in compiling this list

ARIZONA
Raul Grijalva

CALIFORNIA
Joe Baca
Xavier Becerra
Lois Capps
Dennis Cardoza
Susan Davis
Anna Eshoo
Bob Filner
Jane Harman
Mike Honda
Tom Lantos
Barbara Lee
Zoe Lofgren
Juanita Millender-McDonald
George Miller
Grace Napolitano
Lucille Roybal-Allard
Linda Sanchez
Loretta Sanchez
Adam Schiff
Brad Sherman
Hilda Solis
Pete Stark
Ellen Tauscher
Maxine Waters
Diane Watson
Henry Waxman
Lynn Woolsey

COLORADO
Diana DeGette
John Salazar
Mark Udall

CONNECTICUT
Chris Shays
Rob Simmons

DISTRICT OF COLUMBIA
Eleanor Holmes Norton

FLORIDA
Corrine Brown
Alcee Hastings
Kendrick Meek
Debbie Wasserman Schultz

GEORGIA
John Barrow
Cynthia McKinney
David Scott

HAWAII
Neil Abercrombie
Ed Case

ILLINOIS
Melissa Bean
Jerry Costello
Danny Davis
Rahm Emanuel
Lane Evans
Luis Gutierrez
Timothy Johnson
Daniel Lipinski
Donald Manzullo
Bobby Rush
Jan Schakowsky

INDIANA
Julia Carson

IOWA
Leonard Boswell

KENTUCKY
Ben Chandler

MARYLAND
Ben Cardin
Chris Van Hollen
Albert Wynn

MAINE
Tom Allen
Mike Michaud

MASSACHUSETTS
Michael Capuano
William Delahunt
Barney Frank
Stephen Lynch
Ed Markey
Jim McGovern
Richard Neal

MICHIGAN
John Conyers
John Dingell
Dale Kildee
Sander Levin

MINNESOTA
Betty McCollum
Jim Oberstar
Jim Ramstad

MISSOURI
Russ Carnahan
Lacy Clay
Emanuel Cleaver

MISSISSIPPI
Bennie Thompson

NEVADA
Shelley Berkley

NEW JERSEY
Rob Andrews
Rush Holt
Frank LoBiondo
Bob Menendez
Frank Pallone
Bill Pascrell
Donald Payne
Chris Smith

NEW YORK
Gary Ackerman
Timothy Bishop
Sherwood Boehlert
Joe Crowley
Brian Higgins
Steve Israel
Sue Kelly
Pete King
Randy Kuhl
Carolyn McCarthy
Carolyn Maloney
Gerg Meeks
Jerrold Nadler
Louise Slaughter
Ed Towns
Nydia Velazquez
Anthony Weiner
Robert Wexler

NORTH CAROLINA
Brad Miller
David Price
Mel Watt

OHIO
Sherrod Brown
Dennis Kucinich
Steven LaTourette
Tim Ryan
Ted Strickland

OREGON
Earl Blumenauer
Peter DeFazio
Darlene Hooley
David Wu

PENNSYLVANIA
Robert Brady
Mike Doyle
Chaka Fattah
Jim Gerlach
Tim Holden
Allyson Schwartz

Rhode Island
Jim Langevin

SOUTH DAKOTA
Stephanie Herseth
Tennessee
Jim Cooper
Lincoln Davis
Harold Ford, Jr.

TEXAS
Charlie Gonzalez
Al Green
Solomon Ortiz

UTAH
Jim Matheson

VERMONT
Bernie Sanders

VIRGINIA
James Moran

WASHINGTON
Brian Baird
Norman Dicks
Jay Inslee
Rick Larsen
Jim McDermott
Adam Smith

WISCONSIN
Tammy Baldwin
Gwen Moore

WEST VIRGINIA
Nick Rahall

A Transfer of Wealth - The Fuel Crisis

By Dan Akins, M.B.A., Airline Industry Financial Expert

It is most likely fair to say that consumers and businesses have been caught off guard by the huge increase in fuel prices over the past year. The current price of a gallon of gasoline at your local Mobil station is only an indication on a personal level of the dramatic impact oil prices are having in the global economy due to the worldwide love affair with fossil fuel. The recent and seeming sustained increase in the price of fuel has highlighted the connection between this basic energy source and the well being of individuals and businesses alike. Fuel prices once unheard of are now routine. Any speculation of $50 a barrel for crude was laughable just a year ago and, sadly, this price now seems like a good deal. What is more troubling is that there seems to be no fundamental set of market factors that have caused this increase. Is it China's increase in demand, the capacity of the refining industry, OPEC, the war in Iraq or the price speculation that has caused the price change? Whatever the cause, the effect has been a dramatic transfer of worldwide wealth from those who use fuel to those who produce it.

The obvious beneficiaries of the increase in oil prices are the oil companies themselves, which have never made more money than they are making today. The four largest companies, ConocoPhillips, Shell, ChevronTexaco, and ExxonMobil, reported a three-fold increase in net income, from the $22 billion record set in 2002 to over $60 billion in 2004. Record profitability continues in 2005 as oil company profits of $20 billion for the First Quarter 2005 alone are up 40% from the First Quarter 2004. Shockingly, the profitability from the First Quarter is nearly equal to the record profit recorded for the entire year in 2002. Clearly, oil companies are not just passing along cost increases, but are instead using their huge market power to set prices increasingly above their costs. Thus, regardless of the underlying mix of supply and demand factors that are causing fuel prices to increase, oil companies are retaining a significant portion of the increase as net income.

Most businesses rely directly or indirectly on petroleum products to produce the goods and services they offer. The ability to pass along fuel-related price increases to consumers has limits and those businesses with a high proportion of costs related to fuel, like the airline industry, have suffered over the past year. The airline industry has always been capital intensive, in other words, one that requires deep pockets to get started and remain in business. However, the airline industry's obvious dependence on oil as a key component of operations has recently surfaced as a crisis. After years of enjoying stable pricing, fuel has become a highly volatile and increasingly destabilizing factor for the airlines. Not only has fuel eaten away at airline profits and extended the industry's post 9-11 downturn, it has sadly undermined the savings generated from the very painful labor cost and productivity restructuring that took place in 2003 at many carriers.

Since January 2004, the cost of a gallon of jet fuel has more than doubled, from around 80 cents per

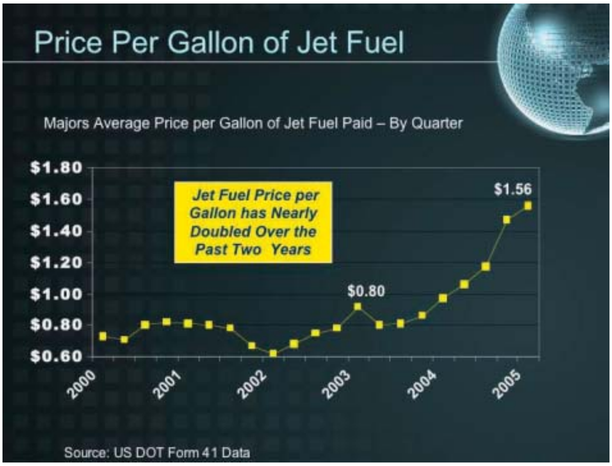
> "WHATEVER THE CAUSE, THE EFFECT HAS BEEN A DRAMATIC TRANSFER OF WORLDWIDE WEALTH FROM THOSE WHO USE FUEL TO THOSE WHO PRODUCE IT."

gallon to more than $1.60 today. This is an increase that no airline could have foreseen. Unlike consumers who fill up with 15 or 20 gallons at a time, airlines consume billions of gallons of fuel each year. American Airlines now consumes over three billion gallons of fuel annually, more than any other carrier. As a result, American has the most exposure to fuel price swings. Each one-dollar increase in the price of a barrel of crude, translates into a nearly three-cent increase in the price per gallon of jet fuel. While a three-cent increase in a gallon of automobile fuel may cause some heartburn, every three-cent increase in the price of jet fuel causes American Airlines to shell out over $80 million more per year for fuel. Since the cost of fuel increased more than $15 a barrel last year, it's easy to see why American's 2004 fuel cost increased more than $1 billion over 2003. If jet fuel were to have remained at 2003 prices, AA would have made a $600 million operating profit instead of suffering a $421 million loss.

Based on current fuel price projections, called the forward curve, American's fuel costs for 2005 are expected to be over $1 billion more expensive than 2004, which makes AA's expected fuel bill for 2005 $2 billion more expensive than 2003! Thus, the $1.8 billion in annual savings from AA's 2003 restructuring has been more than offset by the increase in fuel costs. AA is not alone - this has happened at virtually all carriers that obtained concessions in 2003. Fuel cost, like the weather, is a factor with which all airlines must contend. From this perspective, the airline industry's total fuel expenditure increased about $6 billion in 2004 over 2003, which completely offset the $6 billion savings from 2003 industry labor concessions. In effect, the value of all recent labor concessions in the airline industry has been transferred from the pockets of employees to the coffers of big oil. There can be little argument about this.

> **"NOT ONLY HAS FUEL EATEN AWAY AT AIRLINE PROFITS AND EXTENDED THE INDUSTRY'S POST 9-11 DOWNTURN, IT HAS SADLY UNDERMINED THE SAVINGS GENERATED FROM THE VERY PAINFUL LABOR COST AND PRODUCTIVITY RESTRUCTURING THAT TOOK PLACE IN 2003 AT MANY CARRIERS."**

Oil is now THE focus in the industry. Fuel prices continue to increase and confound with a seeming inability to stabilize. No analysis has yet surfaced that can yield reliable guidance to the future price of fuel according to traditional or any other market factors. Unlike in the past, where events drove fuel crises, today's sustained increase appears to be based in part on commodity speculation and theoretical propositions rather than clearly attributable market forces. The current fuel crisis is the longest sustained dramatic price increase in history. Although it is often claimed that on an inflation-adjusted basis fuel prices in the early 80's and 90's were higher than today, these historic fuel price increases were true spikes which lasted only a month or so, linked to specific short term events. Today's fuel price increases have been sustained over a year now and show no signs of retreating.



For the airline industry there are few options to avoid the destructive impact of fuel price increases. Fuel hedging, whereby a carrier uses current cash on hand to lock in a price at which fuel is to be delivered in the future, is one of them. Southwest has led the airline industry for many years in this practice, typically hedging 85% of its annual fuel consumption at a specific, usually low, rate. Traditional carriers, like American, have historically hedged only a small portion of their annual fuel consumption preferring to conserve cash rather than spend it up front on contracts for future fuel delivery. In contrast to Southwest, American is hedged for only 4% of its expected 2005 fuel volume. The risk to hedging is much like playing the stock market, in that the value paid today may be more than price at which the stock trades in the future. Therefore, there is a large downside risk in "locking into" a future price for fuel. However, in retrospect, all airlines would clearly have chosen to lock in rates from 2003 or 2004 if they could have foreseen today's prices.

The airlines' other option to absorb the fuel price increase is to raise fares, which is always more difficult than it might first appear. Fortunately, after failing to stick during all of 2004, several fuel-price related passenger fare-price hikes have been implemented in 2005 and have resulted in revenue increases that have partially offset increased fuel costs. For American, each 1% increase in fares generates approximately $150 million in annual revenue, and thus is able to offset a nearly $2 a barrel increase. This is part of the reason why American has been able to report an operating profit in the first quarter of 2005 and will likely be profitable in the second quarter despite increasing fuel prices. *(Editor's Note: AA reported a $58 million profit for the 2Q '05.)*

American Airlines, like all other consumers of fossil fuels, is attempting to adjust to this new, seemingly sustained high fuel-price environment. There are very few options and little control over future changes in fuel pricing, which remains largely volatile and unpredictable. Until fuel prices stabilize or decrease, and airlines charge what it costs to operate their services, the airline business will remain highly volatile and unpredictable.

THE WRIGHT AMENDMENT

The Association of Professional Flight Attendants
Representing the Flight Attendants of American Airlines

Dear APFA Member:

Our company and the entire airline industry has recently been challenged by an unprecedented series of events and issues that have the power to impact the future security and viability of American Airlines and consequently, our careers.

The focus of this issue of ***Skyword Express*** is to communicate to our members how critical our involvement is in the area of legislative action. This is one way we can affect positive change and our activism has already achieved results for issues of grave concern to our work group such as the federally-funded Flight Attendant fatigue study and active efforts of pension reform to protect the retirement benefits of AA workers. These topics are explained more thoroughly in this newsletter and on APFA's website.

We are now faced with a huge effort on Southwest Airlines' part to have the Wright Amendment repealed, an amendment that was put into place in 1979 for many sound reasons. This concern is not just a local Texas concern. It is a well-funded campaign to repeal the federal law entitled the "Wright Amendment," which currently allows Southwest Airlines to continue to operate at Love Field from Texas to limited nearby states. They initially encouraged the Wright Amendment and are bound by this law. But now they want their Love Field monopoly to be limitless. If this law is repealed it will have an enormous impact on the future of American's operation at DFW International Airport and our company as a whole. Without a doubt, AA jobs are in jeopardy.

Here is what we are asking you to do: Go to APFA's website at www.apfa.org and familiarize yourself with the issue. Encourage your co-workers to do the same. Each union on AA's property is working toward the collective goal of protecting the interests of all AA employees. We encourage you to contact your own US Congressional delegation and let them know you are an AA Flight Attendant and their action to leave the Wright Amendment in place will protect both your job and your company. You can affect this issue by your involvement. Please join us in our campaign to protect American Airlines jobs.

In Support and in Unity,

Tommie — Brett — Greg — Cathy

Tommie Hutto-Blake   Brett Durkin   Greg Hildreth   Cathy Lukensmeyer

TOP REASONS TO KEEP THE WRIGHT AMENDMENT

B y APFA's Legislative Team

It's about the jobs.

More than 268,000 individuals, and their families, depend on jobs at DFW Airport. This includes airlines, concessionaires, suppliers, construction, maintenance, professional services, hospitality, tourism and other industries. DFW Airport provides $6 billion in personal income annually.

DFW Airport is the economic engine for North Texas.

DFW Airport provides an annual impact of $14 billion to the regional economy yearly. Only DFW offers the opportunity for corporate relocations and continuous economic activity. North Texas is home to 19 Fortune 500 companies. In fact, service from DFW Airport was cited as the motivating reason for a recent Fortune 500 corporate relocation.

DFW Airport is the international gateway to the world.

DFW brings the world to Dallas and Fort Worth with service to over 38 non-stop international routes worldwide on four continents. If the Wright Amendment is repealed, American will be forced to divert services to Love Field, causing a decrease in connecting travelers. If local traffic alone can't support a second flight to Narita, Japan, or Sao Paulo, Brazil, a decrease in connecting passengers could mean these or other international flights can't be sustained.

Service will be jeopardized at small- and medium-sized cities.

With reduced passenger volume at DFW, American might have to scale back or eliminate destinations and frequencies to cities that depend upon DFW connections to national and international locations.

This debate is best resolved locally – not by politicians in Washington.

Four decades ago, the leaders of Dallas and Fort Worth crafted a plan to make DFW the region's national airport. That plan was the Wright Amendment, and it was supported by all parties, including Southwest Airlines.

It's about competition between airlines, not airports.

If AirTran, American West, ATA and Frontier can compete at DFW, why can't Southwest? There is no shortage of low fares or low-cost competitors at DFW.

The Wright Amendment is still important today.

DFW's recent $2.7 billion bond sale, which provided for a dedicated international terminal and Skylink transportation system, depends on the Wright Amendment remaining in place. Since the DFW Airport opened, airlines, businesses and local and federal governments have invested billions of dollars on the assumption that the Wright Amendment was permanent.

APFA POLITICAL ACTION COMMITTEE (PAC)

TO: AMERICAN AIRLINES, INC.

I hereby authorize and direct American Airlines, Inc. to deduct from my pay the sum of $ _______ dollar(s) from each paycheck and remit the amount to the ASSOCIATION OF PROFESSIONAL FLIGHT ATTENDANTS' PAC.

This authorization is voluntarily made based on my specific understanding that:

•The signing of this authorization card and the making of these voluntary contributions are not conditions of membership in the Union or of employment by my employer;

•That I may refuse to contribute without reprisal;

•And that the ASSOCIATION OF PROFESSIONAL FLIGHT ATTENDANTS' PAC, which is connected with the ASSOCIATION OF PROFESSIONAL FLIGHT ATTENDANTS uses the money it receives for political purposes, including but not limited to making contributions to and expenditures for candidates for federal, state and local offices and addressing political issues of public importance.

Name ____

Employee Number ____________________ Base ____________________

Date ____________________ Signature ____________________

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APFA
1004 WEST EULESS BLVD.
EULESS, TEXAS 76040-5015

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Association of Professional Flight Attendants
1004 West Euless Boulevard
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