



Cleary Gull - An Independent Perspective

Services

Pre-Retirement Planning

Full Investment Management Services

Estate Planning

Family Survivorship Guidance

CURRENT ISSUES OF INTEREST

1.) Should I lock in the September 30 B-Plan value for December 1, 2009 or January 1, 2010?

Locking in 60 days or 90 days is a source of constant debate. A review of both the A-Plan and B-Plan is necessary to assist in your decision.

a.) How will the change of the A-Plan lump sum factor affect a December versus January retirement?

If you are seriously considering retiring soon, then you should also note that the formula for determining the lump sum factor for the A-Plan will change from a blend of:

- 60% 30-year Treasury and 40% Corporate Interest to
- 40% 30-year Treasury and 60% Corporate Interest

for a benefit commencement date on or after January 1, 2010.

If you are below age 60, there is an approximate 0.7%/month discount for early retirement. However, this may be offset by additional salary you earn if you choose to continue to fly. For pre-60 pilots, anticipate a total reduction of 1.2% - 2.1% on the A-Plan lump sum from 12/1/2009 benefit commencement to 1/1/2010 benefit commencement.

The reduction would be higher for an over-60 pilot, estimated at 2.0% - 2.85% reduction from December to January, assuming an overall unchanged interest rate environment.

b.) What about the B-Plan?

The B-Plan has appreciated approximately 31% (as of end of September estimated value at \$84) since the low of \$64 per share on February 28, 2009. Most pilots will reinvest a percentage of their retirement amounts in the equity markets and will continue to have similar market exposure as they currently have with the B-Plan.

2.) How does the recent financing by AMR affect their cash position and near term cash flows?

AMR has raised significant amounts of cash and will be able to meet their expected cash needs for the remainder of 2009 and most likely 2010. AMR expects to end the third quarter with approximately \$4.4 billion in cash and short-term investments, including approximately \$460 million in restricted cash.

Sept	GECAS financing	\$1.9 billion
Sept	Frequent-flier miles	\$1 billion
Sept	Stock	\$400 million
Sept	Convertible senior notes	\$460 million
Sept	Senior notes	<u>\$450 million</u>
	Total	\$4.2 billion

3.) How do I analyze the trade-off between retiring now and living off of my retirement amounts and continuing to work to my age 62 or age 65?

There are many variables to take into account:

- income earned while working
- future A-Plan lump sum factors
- estimated B-Plan values
- draw rates
- expected investment returns

The Cleary Gull Pilot Program has worked with many Captains over the years and has developed sophisticated software to help model their wealth under a variety of circumstances. We would welcome the opportunity to help you develop a framework for making informed decisions. Please contact us at 877-747-1133.

Analyst Estimates for AMR: <http://phx.corporate-ir.net/phoenix.zhtml?c=117098&p=irol-estimates>
AMR's Quarterly Filing Form 10-Q: <http://phx.corporate-ir.net/phoenix.zhtml?c=117098&p=IROL-sec>
AMR's Investor Relations page (also includes a link to a replay of the 2nd Qtr Conference Call):
<http://phx.corporate-ir.net/phoenix.zhtml?c=117098&p=irol-IRHome>

If you would like to receive weekly updates on the American Airlines A&B plan, please email us at pilotinfo@clearygull.com.

Pension Protection Act - 2006 (HR 4)

The second year of the phase-in of the Corporate Bond rate from the Pension Protection Act – 2006 is effective beginning 1/1/09. The following table illustrates the estimated change in lump sum values for an age 60 Benefit Commencement Date on 1/1/09 versus a 12/1/08 Benefit Commencement Date.

<u>Annual Lifetime Annuity</u>	<u>A-Plan Lump Sum</u>	<u>A-Plan Lump Sum</u>	<u>Difference</u>
	<i>(12/1/08)</i>	<i>(1/1/09)</i>	
\$50,000	\$ 684,300	\$ 629,220	\$ 55,080
\$60,000	\$ 821,160	\$ 755,064	\$ 66,096
\$70,000	\$ 958,020	\$ 880,908	\$ 77,112
\$80,000	\$1,094,880	\$1,006,752	\$ 88,128
\$90,000	\$1,231,740	\$1,132,596	\$ 99,144

With the change in the multiplier from 12/1/08 (13.686) to 1/1/09 (12.5844), the lump sum decreases by approximately 8%.

Tricare Information

Contact [Bob Shore](#) for additional information on Tricare or www.tricare.mil.

QUESTIONS & ANSWERS

1.) What services does Cleary Gull provide?

Pre-Retirement (free)

- Super Saver Guidance
- 36-Month Timeline Assistance
- Lock-in Process Guidance
- Help with AMR Retiree Benefits
- Unit Value Estimates
- Break-Even Analysis
- Final Bidding Techniques
- Wealthcare Retirement Plan - Providing a "Success Odds Analysis"
- Estate Planning Guidance

Client Retirement

- Investment Management Services
- Survivor Guidance and Assistance
- Financial Planning Guidance
- Estate Planning Guidance

The 2009 [Defined Benefit Plan Lump Sum Determination](#) will be based on an 60% 30-year Treasury / 40% Corporate Bond rate.

2.) Can you give me more information as to what my lock-in options are?

[Click here for available Lock-In Options](#). Additional assistance provided by calling 877-747-1133 or contacting our [Cleary Gull Retirement Consultant Team](#).

3.) When should I consider starting the B-Plan "Lock-In" game? Can you provide me with current unit value estimates?

The ability to lock-in a B-Plan unit value is a significant feature of the American Airlines Pilot Retirement Plan. As one nears retirement, the lock-in should be initiated between 12-15 months prior to retirement. This exercise can be very beneficial to protect your accumulated B-Plan account value in a declining market or an opportunity to maximize your B-Plan payout. Under previous, normal circumstances, most "lock-in players" retire only one month early with a net advantage of \$10,000 - \$110,000, after consideration of lost salaries, vacation accrual, early retirement discount and delayed payment of retirement funds.

We regularly monitor investment valuations and, based upon our understanding of the B-Plan asset allocation, we calculate and make available unit value estimates after the close of markets every Friday and the last five trading days of each month.

If you would like to receive this complimentary email link, please contact one of our [Retirement Consultants](#).

4.) Can you help me with some Super Saver questions?

a.) Can I invest in the Super Saver and still contribute to an IRA?

You can contribute up to \$15,500 in 2008 to your Super Saver plus \$5,000 more as a "catch up" for those of you who turn 50 by the end of the year. Cleary Gull's current recommendations for Super Saver allocations can be viewed by sending us an e-mail at AMR401K@Clearygull.com. We will add you to our update advisory list where we provide our quarterly updated recommendations.

Consider making a contribution to an IRA or fund a Roth IRA. For 2008, the limit is \$5,000 with a \$1,000 "catch up" for those of you who turn 50 by the end of the year.

To discuss your situation in more detail, call us at 877-747-1133 or contact our [Cleary Gull Retirement Consultant Team](#).

b.) Can Cleary Gull help me invest my Super Saver assets?

Cleary Gull offers a Super Saver 401k Asset Allocation Guidance Program developed specifically for American Airline pilots. This program has a dependable and established track record. It is simple, effective, self-directed, and "free". Our extensive asset allocation research was used to create this guide to help you allocate your Super Saver assets in the most efficient and appropriate way.

To receive your complimentary guide, simply call our toll-free number at 877-747-1133 or request your [American Airlines Super Saver Asset Allocation Guide](#) online.

5.) Interest rates have declined; how do lower rates affect the amount of my A-Plan lump sum?

Your lump sum amount is calculated by taking the annual benefit you have earned and multiplying it by a factor.

Your annual benefit is determined by dividing your Final Average Earnings (FAE) times Years of Service by 2 and multiplying by .025.

FAE = \$180,000

Years of Service = 30 years

$\$180,000 / 2 \times .025 \times 30 = \$67,500$

The factor is determined by your age at retirement and a formula of interest rates in accordance with the Pension Protection Act of 2006.

Retirement Date	Final Ave. Earnings	Years of Service	Age 60 Factor	Lump Sum
9/1/2008	\$ 180,000	30	13.3755	\$ 902,846
10/1/2008	\$ 180,000	30	13.4488	\$ 907,794
11/1/2008	\$ 180,000	30	13.5344	\$ 913,572
12/1/2008	\$ 180,000	30	13.686	\$ 923,805
1/1/2009	\$ 180,000	30	12.5844	\$ 849,447
2/1/2009	\$ 180,000	30	12.801	\$ 864,068
3/1/2009	\$ 180,000	30	14.2389	\$ 961,126
4/1/2009	\$ 180,000	30	14.193	\$ 958,028
5/1/2009	\$ 180,000	30	13.584	\$ 916,920
6/1/2009	\$ 180,000	30	13.2568	\$ 894,834
7/1/2009	\$ 180,000	30	13.4579	\$ 908,408

A pilot considering early retirement should consider the early retirement discount, approximately .7%/month prior to age 60, forgone salaries, 11% Company contributions to the B-Plan and benefit changes from active to early retiree status. Cleary Gull can provide pension estimates and comparative month to month differences for an early retirement versus continuing forward toward age 60 or 65. Please call us at 877-747-1133 or contact our [Cleary Gull Retirement Consultant Team](#) if you would like an analysis of your options.

6.) What are some of the factors to consider when deciding whether to retire early?

a.) Factors to consider in deciding whether to retire early:

RETIRE	CONTINUE TO WORK
<ul style="list-style-type: none"> ✓ Need To Be Certain Of Receiving Lump Sum ✓ Short Time To Normal Retirement (Small Discount For ER) ✓ Increasing A-Fund Interest Rate Factor ✓ Other Employment Opportunities ✓ Pension Legislation ✓ Eliminate Anxiety 	<ul style="list-style-type: none"> ✓ Retirement Unaffordable Now ✓ Retirement Too Far Off (Large Discount For ER) ✓ Airline Longevity – 10-18 Years ✓ Would Like To Continue Flying ✓ HR65 – Pilot Retirement Age ✓ Lump Sum Factor Declines with Age

b.) Avoiding the 10% penalty if you take withdrawals from your IRA account before you are 59 ½ years old.

A 10% penalty tax applies on retirement plan distributions that are includable in gross income (not rollovers) and are made before age 59 ½. Under IRS 72(t), an exception to the penalty tax is for distributions that are part of a series of "substantially equal periodic payments" calculated for the life of the taxpayer or the joint life (lives) of the taxpayer and his or her spouse. Once the distribution begins, it must be continued to age 59 ½ or for a minimum of five years, which ever comes last.

Cleary Gull can help you determine the optimal way to structure your "substantially equal payments" to provide you with the income you require.

If you are thinking about making early withdrawals, we suggest that you consult with Cleary Gull to have a **Wealthcare Analysis** run for you. The Wealthcare report employs a [Monte Carlo](#) analysis to model uncertainty and provides you with a confidence level that your retirement plan will deliver the lifestyle you seek without undue risk or sacrifice. If you are within five years of retirement and would like to learn more about Wealthcare and how it can be useful to you in your retirement planning, please contact us at 877-747-1133 or contact our [Cleary Gull Retirement Consultant Team](#).

c.) The possibility of making withdrawals out of your Super Saver before age 59 ½, and avoid paying the 10% tax penalty on the taxable portion of the distribution:

This additional tax does not apply to a withdrawal or distribution due to: Disability, Termination of Employment on or after age 55, Payment of tax-deductible medical expenses, or a Qualified Domestic

Relations Order or Death. Also, if you retire from American Airlines within the year you reach age 55, you are not subject to the 10% tax penalty.

You should expect that 20% will be withheld for Federal Taxes as withdrawals are made.

d.) Obtaining assistance in determining your accrued pension benefits and options for early retirement: Will I have enough assets to retire early and live comfortably?

If you are within five years of retirement, Cleary Gull can help you determine the amount of benefits you would receive if you retire early and compare it to what you would receive if you continue to your normal retirement date. We can also help you determine whether to lock-in the value of your B-Plan. Cleary Gull utilizes the **Wealthcare program** to project your desired after-tax retirement income and sources of funding, including other pensions, Social Security and investment income. You can receive your **Wealthcare Analysis** by printing out a **ClearWealth® Confidential Questionnaire** and mailing it to **Cleary Gull**. For faster service, fax the completed questionnaire to us toll-free at 877-FLY-CGULL (877-359-2485).

If you are considering early retirement, contact Cleary Gull for professional assistance. We can provide you with the information to assist in an intelligent decision.

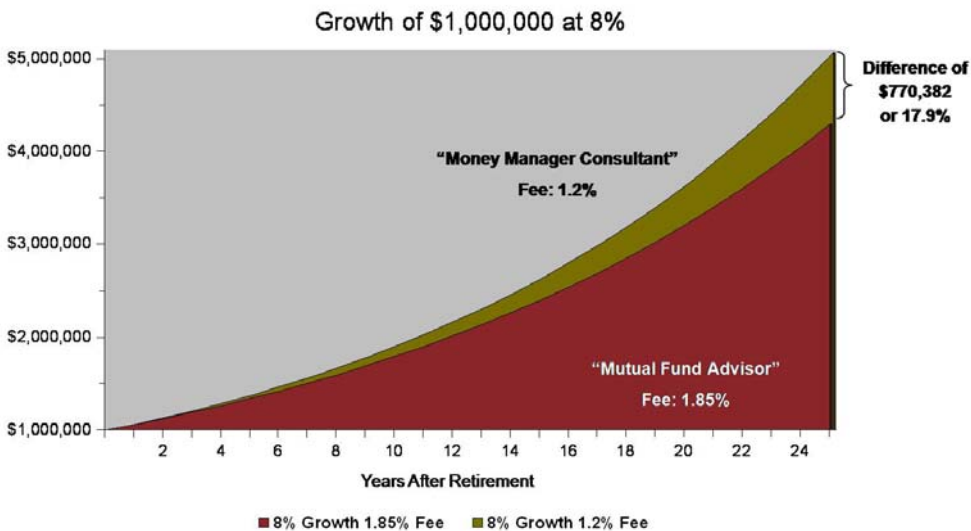
7.) I have heard a few pilots talk about splitting retirement money between two firms. Is there any downside to splitting your investments?

While some people feel more comfortable splitting their money, we feel there is some downside to be considered.

- Consider, for a moment, the implications of using multiple tax advisors, insurance agents, estate planners, or having three separate physicians each treat a third of your ailment. In each of these situations, those advisors must have all of the information at hand in order to properly respond to your needs. The same principal applies to using multiple investment advisors. Without the opportunity to see your entire financial picture, it is difficult to make the best recommendation for your overall planning.

It is sometimes more expensive to diversify two separate portfolios.

- At Cleary Gull, we provide the diversification that you seek using multiple investment advisors (account splitting) but it eliminates the inefficiencies. In addition, part of your retirement portfolio at Cleary Gull will be invested in individual bonds for most account sizes, and this is generally more cost efficient and flexible.
- Fee structures can vary considerably. Mutual fund costs are not always transparent and, in many cases, **are in addition to** the management fee quoted by an advisor.
- Cleary Gull fully discloses **all** fees and costs associated with your portfolio.



It is sometimes more difficult to properly diversify two separate portfolios.

- The issue is one of coordination. It is not likely that the separate managers will work in concert to ensure that your allocations are dovetailed to eliminate duplication (such as owning the same stocks in each plan) and avoid out-of-balance conditions in your combined portfolio. Your Cleary Gull portfolio manager, based on your individualized profile, determines the portion of your assets allocated to each manager/fund. Here you get coordinated diversification. All of your eggs are in different baskets but they are coordinated by a portfolio manager overseen by a full staff of qualified advisors, not a one person operation.

It is sometimes more difficult to track minimum distributions at 70½ when you have more than one account.

- Again, this would require that you coordinate between multiple advisors to make sure that you comply with the law.

It is usually more cumbersome and difficult to monitor multiple portfolios in the investment of your retirement assets.

In the end, it is a personal decision that is made based on your own comfort level. Cleary Gull has an excellent Q&A on how to [Evaluate an Investor Advisor](#) that may help in your decision making process.

8.) Some of my friends have told me about investing my retirement assets in an annuity. Does this make sense and what should I know before doing so?

Annuities are packaged and sold by insurance companies and come in as many flavors as ice cream – immediate, deferred, variable, equity indexed, principal protected and more. The attractiveness of the annuity is that it shifts some of the financial risk from the individual to the insurance company. Unfortunately, that shift of risk comes with a substantial price tag and loss of flexibility. Also, don't forget that insurance companies can also fail.

A major benefit of an annuity is tax-deferred growth. Because the annuity is an insurance contract, the insurance company charges a mortality and expense charge which can exceed 1% per year of the annuity value. This M&E charge is in addition to the investment management fees, other rider costs and any

"market value" adjustments commonly found in variable annuities. Since an IRA already enjoys tax-deferred growth, many advisors are not in favor of buying an annuity inside an IRA.

The types of annuities that are "hot" vary with current market conditions. For example, when the market is good, variable annuities are popular; when the market is down/stagnant, fixed products are heavily marketed. Equity Indexed annuities (EIAs) are a hybrid annuity that promise participation in the upside of a market with downside protection. Unfortunately EIAs offer limited upside participation and the downside protection is no better than breaking even. They also come with significant costs.

Insurance companies are generally very good at making profits. They are experts in evaluating mortality and economic trends and price their products accordingly. Since the vast majority of annuities are sold rather than bought, it is clear that the consumer faces a difficult hurdle in deciphering the cost/benefit issues in these products.

While annuities can be a useful component of a total financial plan, they are not generally recommended until all the other cost efficient methods are exhausted. And remember, Social Security, a military pension or other qualified pension elections you have are also annuities, which may be more than enough guaranteed cash flow.

Here are some links that you will find useful in gaining some perspective of the annuity product before committing to a purchase. In addition, we would be happy to discuss this material in more detail if you call us at 877-747-1133 or contact our [Cleary Gull Retirement Consultant Team](#).

<http://www.finra.org/InvestorInformation/InvestorAlerts/AnnuitiesandInsurance/VariableAnnuitiesBeyondtheHardSell/index.htm>

<http://www.finra.org/InvestorInformation/InvestorAlerts/AnnuitiesandInsurance/Equity-IndexedAnnuities-AComplexChoice/index.htm>

<http://www.finra.org/InvestorInformation/InvestorAlerts/FraudsandScams/FreeLunchInvestmentSeminars-AvoidingtheHeartburnofaHardSell/index.htm>

<http://www.fool.com/retirement/annuities/annuities02.htm>

<http://moneycentral.msn.com/content/Retirementandwills/InvestYourSavings/P73742.asp>

ADDITIONAL WEBSITE LINKS

Pension Benefit Guarantee Corporation - <http://www.pbgc.gov/>

Social Security Administration - <http://www.ssa.gov>

Allied Pilots Association - <http://www.alliedpilots.org/>

Restricted for use by AA Employees - <http://www.jetnet.aa.com/>

Federal Aviation Administration - <http://www.faa.gov/>

Veterans Administration - <http://www.va.gov/>

Tricare Resources - <http://www.tricare.mil/>

Tricare Retiree Dental Plan - <http://www.ddpdelta.org/>

IRS Website - <http://www.irs.gov/>

Medicare Website - <http://www.medicare.gov/>

ADDITIONAL QUESTIONS?

If you have additional questions, please e-mail us at pilotinfo@clearygull.com. We will respond to your questions as soon as possible.

Key members of the Cleary Gull Pilot Team are [Stan Spiewak](#) and [Bob Shore](#). As ex-American Airlines employees, together they bring over 65 years of American Airlines experience to Cleary Gull. Stan and Bob keep up-to-date on recent developments affecting American Airlines employee benefits and are uniquely qualified to assist pilots.

With their guidance, Cleary Gull has compiled the following Questions and Answers for you, an American Airlines pilot, as well as useful web links to further your understanding.

Disclaimer:

Cleary Gull will endeavor to update information on this website as it becomes available but makes no representation as to its accuracy or completeness. This information, including links to other websites, is thought to be reliable but we can not guarantee its accuracy. Many of the answers to questions about retirement benefits may be changed by upcoming negotiations.