

HEARING DATE AND TIME: December 19, 2012 at 10:00 a.m. (Eastern Time)

OBJECTION DEADLINE: December 14, 2012 at 4:00 p.m. (Eastern Time)

PENSION BENEFIT GUARANTY CORPORATION

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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	
)	Chapter 11
)	
AMR CORPORATION, <i>et al.</i> ,)	Case No. 11-15463 (SHL)
)	
Debtors.)	Jointly Administered
)	

STATEMENT OF THE PENSION BENEFIT GUARANTY CORPORATION IN SUPPORT OF DEBTORS' MOTION FOR A FINDING THAT AMENDMENT OF AMERICAN AIRLINES, INC. PILOT RETIREMENT BENEFIT PROGRAM FIXED INCOME PLAN TO ELIMINATE LUMP SUM AND INSTALLMENT FORMS OF BENEFITS IS NECESSARY TO AVOID A TERMINATION OF THE PLAN

The Pension Benefit Guaranty Corporation (“PBGC”) submits this statement in support (“Statement”) of the motion of AMR Corporation (“AMR”) and American Airlines, Inc. (“American”) (collectively, the “Debtors”), pursuant to section 363(b) of title 11, United States Code (the “Bankruptcy Code”) and 26 C.F.R. § 1.411(d)-4 Q&A-2(b)(2)(xii) (the “Regulation”), seeking this Court’s finding that adoption of the amendment eliminating the lump sum and installment forms of optional benefit payments (the “Amendment”) currently provided for in the American Airlines, Inc. Pilot Retirement Benefit Program Fixed Income Plan (the “Pilot Plan”) is necessary to avoid termination of the Pilot Plan before the Debtors emerge from chapter 11 of the Bankruptcy Code (the “Motion”)(Docket No. 5413). PBGC is the federal agency charged with administering the pension plan termination provisions of Title IV of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), 29 U.S.C. §§ 1301-1461 (2006 & Supp. V 2011) and is also a party in interest and creditor in this proceeding. PBGC supports the Motion and files this Statement to inform the Court that, in accordance with the Regulation, PBGC has issued a determination that adoption of the Amendment is necessary to avoid termination of the Pilot Plan before the Debtors emerge from bankruptcy and that the Pilot Plan is not sufficient for guaranteed benefits.¹

I. PBGC and American’s Pension Plans

PBGC is a wholly owned United States government corporation that administers the defined benefit pension plan termination insurance program established under Title IV of ERISA

¹ See PBGC Determination pursuant to 26 C.F.R. § 1.411(d)-4, A-2(b)(2)(xii) for American Airlines, Inc. Pilot Retirement Benefit Program Fixed Income Plan, attached hereto as Exhibit 1.

and guarantees the payment of pension benefits up to statutory limits. When an underfunded pension plan terminates, PBGC becomes the statutory trustee of the plan and pays the promised benefits with its insurance funds, up to certain limits set by law.²

On November 29, 2011, the Debtors commenced a voluntary case under chapter 11 of the Bankruptcy Code. American sponsors four single-employer defined-benefit plans, including the Pilot Plan. Each plan is covered by the federal pension plan termination insurance program established under Title IV of ERISA.³

If the Pilot Plan terminates, the Debtors will be jointly and severally liable to PBGC for the amount of unfunded benefit liabilities of the Pilot Plan.⁴ The Debtors also become liable, following discharge or dismissal from reorganization proceedings, for premiums equal to \$1,250 per plan participant per year for three years.⁵ In addition, whether or not the Pilot Plan terminates, the Debtors are jointly and severally liable to the Pilot Plan for contributions required under the minimum funding standards of ERISA and the Internal Revenue Code.⁶ Upon termination of an underfunded pension plan and PBGC's appointment as statutory trustee of the plan, PBGC asserts minimum funding contribution claims on behalf of the plan.⁷ Whether or not

² See 29 U.S.C. §§ 1322, 1361.

³ 29 USC §§ 1301-1461 (2006 & Supp. V 2011).

⁴ See 29 U.S.C. § 1362(a), (b); see 29 U.S.C. § 1301(a)(18).

⁵ 29 U.S.C. § 1306(a)(7).

⁶ See 29 U.S.C. §§ 1082, 1342; I.R.C. §§ 412, 430.

⁷ See 29 U.S.C. § 1342(d)(1)(B)(ii).

the Pilot Plan terminates, the Debtors are also jointly and severally liable for unpaid insurance premiums due to PBGC.⁸

PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums paid by companies that sponsor defined benefit plans, investment income, and assets from terminated plans.⁹ On November 14, 2012, PBGC announced a deficit of \$34 billion.¹⁰ The termination of the Pilot Plan would result in a multi-billion dollar loss, adding significantly to PBGC's deficit. If the Pilot Plan terminates, the resulting unfunded liabilities assumed by PBGC is estimated at \$2.3 billion.

II. The Regulation and PBGC's Determination Regarding the Amendment

The Regulation was published on November 8, 2012, and allows a plan sponsor that is a debtor in bankruptcy to amend a covered pension plan to eliminate a single-sum distribution option (or other optional forms of benefits providing for accelerated payments) under the plan, if four conditions are met.¹¹ One condition is that PBGC has issued a determination that 1) the adoption of the amendment is necessary to avoid a distress or involuntary termination of the pension plan before the plan sponsor emerges from bankruptcy (or before the bankruptcy case is otherwise completed); and 2) the plan is not sufficient for guaranteed benefits.¹²

In accordance with the Regulation, American submitted a request to PBGC for a determination regarding the Amendment. PBGC conducted an in-depth review of American's request and all supporting materials and completed its administrative process. On December 13,

⁸ 29 U.S.C. § 1307.

⁹ PBGC 2012 Annual Report, page 1, *available at* <http://pbgc.gov/documents/2012-annual-report.pdf>.

¹⁰ *Id.* at 24.

¹¹ 26 C.F.R. § 1.411(d)-4 Q&A-2(b)(2)(xii).

¹² 26 C.F.R. § 1.411(d)-4 Q&A-2(b)(2)(xii)(D).

2012, PBGC issued a determination that adoption of the Amendment is necessary to avoid a distress termination of the Pilot Plan before the Debtors' bankruptcy case is completed and that the Pilot Plan is not sufficient for guaranteed benefits.¹³

III. Conclusion

In accordance with the Regulation, PBGC has determined that adoption of the Amendment is necessary to avoid a distress termination of the Pilot Plan before the Debtors emerge from bankruptcy, and therefore, supports the Debtors' Motion to adopt the Amendment.

December 14, 2012
Washington, DC

/s/ Nathaniel Rayle

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¹³ See Ex. 1.

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EXHIBIT 1



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

DEC 13 2012

American Airlines, Inc.
4333 Amon Carter Blvd.
Fort Worth, TX 76155
Attn: Randall J. White, Associate General Counsel

SUBJECT: Determination pursuant to 26 C.F.R. § 1.411(d)-4, A-2(b)(2)(xii)
for American Airlines, Inc. Pilot Retirement Benefit Program
Fixed Income Plan, EIN/PN: (the "Plan")

Dear Mr. White:

The Pension Benefit Guaranty Corporation ("PBGC") hereby notifies you of PBGC's determination pursuant to 26 C.F.R. § 1.411(d)-4, A-2(b)(2)(xii) (the "Regulation") regarding the amendment proposed by American Airlines, Inc. ("American") to eliminate certain optional forms of benefit currently provided by the Plan, specifically, those designated by American as the "lump sum option" and the "installment option." On November 1, 2012, American submitted a request for a determination from the PBGC pursuant to the Regulation.

Upon receiving such a request, PBGC makes a determination under the Regulation whether:

- 1) adoption of the sponsor's proposed amendment eliminating specified optional forms of benefit is necessary to avoid plan termination, under either 29 U.S.C. § 1341(c) or 29 U.S.C. § 1342, before the sponsor emerges from bankruptcy; and
- 2) the plan is not sufficient for guaranteed benefits within the meaning of 29 U.S.C. § 1341(d)(2).

In support of its request, American submitted information on projected pilot retirements and the potential effect of those retirements on American's business and operations if the lump sum and installment options are not eliminated from the Plan. American also submitted information on the funding level of the Plan.

Based on a review of the information provided, PBGC has determined that elimination of the lump sum and installment option benefit forms is necessary to avoid

plan termination under 29 U.S.C. § 1341(c) before American emerges from bankruptcy. Additionally, PBGC has determined that the Plan is not sufficient for guaranteed benefits within the meaning of 29 U.S.C. § 1341(d)(2). Therefore, PBGC has determined that the requirements of 26 C.F.R. § 1.411(d)-4, A-2(b)(2)(xii)(D)(1) & (2) have been met.

PBGC has completed its decision-making process in this matter; accordingly, this determination is effective on the date it is issued.

Very truly yours,

A handwritten signature in black ink, appearing to read "Sanford Rich", written in a cursive style.

Sanford Rich
Chief of Negotiations and Restructuring
Pension Benefit Guaranty Corporation

cc: Vicki Blanton, Senior Benefits Counsel
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