

IMPORTANT BENEFITS INFORMATION



APA Voluntary Supplemental Medical (SMP) Rate Restructure

Effective October 1, 2021



June 15, 2021

RE: APA Voluntary Supplemental Medical (SMP) Rate Restructure – Effective October 1, 2021

Dear Plan Participants:

APA's Voluntary Supplemental Medical and Custodial Care Benefit Plan ("SMP" or "Plan") was established in 1985. The Plan originally provided supplemental medical coverage for active and retired members, surviving spouses, and dependents; it now also includes primary coverage for certain eligible participants. The SMP has had five rate adjustments (some of which did not affect every eligible group represented) and one rate decrease since its inception. The rate adjustments approved by the APA Board of Directors last month – via their adoption of R2021-28 Rev 1, "SMP Restructure of Participant Contributions" – will be only the seventh such change in 36 years. (You can read the resolution on pages 3-5 of this document.)

During the Board of Directors' fall 2020 meeting, the APA Benefits Review and Appeal Board (BRAB) provided data and information and engaged in a discussion concerning the impending need for a new Plan rate structure. The BRAB explained that a new rate structure would be proposed for implementation in 2021. As of Dec. 31, 2019, there was a reserve shortfall of \$371.7 million in the Plan. Absent a rate adjustment, that shortfall is estimated to increase to \$461.1 million by Dec. 31, 2023. That is an unsustainable trajectory for the Plan.

On a cash basis for 2020, benefits and administration expenses were \$13.9 million, while participant contributions were only \$8 million, resulting in a shortfall of approximately \$5.8 million. If it had not been for Plan investment income, the SMP reserves would have been called upon to make up the shortfall. For additional information on how the Plan's payments have gone up in recent years and the impact this has had on the Plan's reserves, please look at pages 6-9 of this document, which are excerpted from the BRAB presentation the Board of Directors' fall 2020 meeting.

Additional information about how the SMP works, its history, and the current changes being made are included in the set of Frequently Asked Questions on pages 10-14 of this document. We know rate adjustments can be unsettling, especially in a plan that has had so few throughout its history. The goal of the Board of Directors' recent action, which was not taken lightly, was to ensure the sustainability of your Plan for years to come.

On the next page you will find the new rate restructure, which becomes effective on October 1, 2021:

SMP Rate Category/Group	Current Rate(s) (based on retirement status, date (as applicable) and participant status (e.g., member, spouse or dependent))	New Rate
Group A: Active Rate (applies to Eligible Members, Spouses, and Dependent Children, based on Member's status)	\$15, \$20	\$25
Group B: SMP Secondary to AA Retiree Medical Coverage (Eligible Members and Spouses under age 65)	\$60, \$140	\$125
Group C: SMP Secondary to AA Retiree Medical Coverage (Eligible Members and Spouses age 65 and older)	\$50	\$50 (No Change)
Group D: SMP Primary (Eligible Members, Spouses, and Surviving Spouses)	\$60, \$140, \$400	\$400
Group E: SMP Secondary to Medicare (Eligible Members and Spouses, including Surviving Spouses)	\$50, \$60	\$200
Group F: Dependent Children of Members other than an Active Member	\$60, \$140, \$200	\$200

As a reminder, your contribution increase will be effective Oct. 1, which means your new monthly contribution will be drafted Sept. 25.

If you have any questions, please contact the APA Benefits Department Benefits.Sec@alliedpilots.org or via phone by dialing 817-302-2140.

Board Disposition: Adopted without objection on 5/20/2021

R2021-28 rev 1	SOURCE: BRAB	FOR: _____
BOD MTG: SPRING	PROPOSER: CA Dave Rintel	AGAINST: _____
5/18-21/2021		ABSTAIN: _____
		ABSENT: _____

Title:	SMP Restructure of Participant Contributions
--------	--

Drafting Committee	Policy Manual Amendment:	Cons. & Bylaws Amendment:

Drafting Committee: Recommend adoption by the Board as amended, 9-0-0-1

DATE CONSIDERED: <input type="checkbox"/> 5/19/2021	OTHER AVAILABLE BOD ACTIONS: <input type="checkbox"/> Amend (By Rev # -- OKd by Maker) <input type="checkbox"/> Amend (Without Maker OK) <input type="checkbox"/> Refer (To Whom? Instructions?) <input type="checkbox"/> Postpone Indefinitely (Kill) <input type="checkbox"/> Postpone to a Certain Time <input type="checkbox"/> Adopt-in-Lieu Of _____	FOR: _____ 9 AGAINST: _____ 0 ABSTAIN: _____ 0 ABSENT: _____ 1
RECOMMENDED FINAL ACTION: <input checked="" type="checkbox"/> Adopt <input type="checkbox"/> Defeat		

1 **WHEREAS**, the APA Voluntary Supplemental Medical and Custodial Care Benefit Plan
2 (“Plan”) provides that APA has the right to amend or terminate the Plan at any time, including without
3 limitation with respect to the Plan’s required contribution levels (“reservation of rights”); and,

4 **WHEREAS**, Segal, the Plan’s actuarial expert, has recommended a restructuring of Plan
5 contributions to ensure adequate funding of the Plan; and

6 **WHEREAS**, in connection with such recommendations, the BRAB instructed Segal to
7 conduct a rate study to address the funding concerns raised by Segal; and

8 **WHEREAS**, the BRAB has determined, based on Segal’s recommendations, that it would be
9 prudent to revise the SMP’s contribution rates at this time to address a projected shortfall in the
10 Plan’s reserves; and

11 **WHEREAS**, the Board has determined to restructure the Plan’s contribution rates based on
12 the recommendations provided by Segal and the BRAB; therefore,

13 **BE IT RESOLVED**, that the Board hereby amends the contribution structure under the APA
 14 Voluntary Supplemental Medical and Custodial Care Benefit Plan (“Plan”), as follows:

SMP Rate Category/Group	Current Rate(s) (based on retirement status, date (as applicable) and participant status (e.g., member, spouse or dependent))	New Rate
Group A: Active Rate (applies to Eligible Members, Spouses, and Dependent Children, based on Member’s status)	\$15, \$20	\$25
Group B: SMP Secondary to AA Retiree Medical Coverage (Eligible Members and Spouses under age 65)	\$60, \$140	\$125
Group C: SMP Secondary to AA Retiree Medical Coverage (Eligible Members and Spouses age 65 and older)	\$50	\$50 (No Change)
Group D: SMP Primary (Eligible Members, Spouses, and Surviving Spouses)	\$60, \$140, \$400	\$400
Group E: SMP Secondary to Medicare (Eligible Members and Spouses, including Surviving Spouses)	\$50, \$60	\$200
Group F: Dependent Children of Members other than an Active Member	\$60, \$140, \$200	\$200

15 **BE IT FURTHER RESOLVED**, that on an ongoing basis, the BRAB, Benefits Department
 16 and Segal will periodically report to the Board the funded status of the Plan and any additional
 17 recommended changes in the contribution structure of the Plan; and

18 **BE IT FURTHER RESOLVED**, that the Board directs and authorizes the BRAB, National
 19 Officers, and Benefits Department to take any and all actions that are reasonable and necessary to
 20 implement this resolution, as soon as practicable, including without limitation the preparation and
 21 execution of amendments to the Plan as needed to reflect the changes described herein; and

22 **BE IT FURTHER RESOLVED**, that all the acts and doings of the BRAB, National
23 Officers, and the Benefits Department that are consistent with the purposes and intent of this
24 resolution will be, and are in all respects, ratified, confirmed, approved, and adopted.



ALLIED PILOTS ASSOCIATION

Benefits Review and Appeals Board

Fall 2020

BOD Meeting

Supplemental Medical Plan

Annual Review and Valuation



BRAB - Benefits Department

- Overall, claims experience increased significantly for two consecutive years without commensurate increases in contribution rates.
- Due to these significant shortfalls in the SMP, the BRAB authorized Segal to review the rates.
- The BRAB plans to propose new rate structure in 1st quarter of 2021.
- Segal Projections: As of December 31, 2019, there was a reserve shortfall of \$371.7 million. Segal projects the shortfall to increase to \$461.1 million by December 31, 2023.
- Covid-19: Short-term increases are to be noted in the health plan cost related to testing and treatment of Covid-19. Claims exceeded Segal projections.

Supplemental Medical Plan

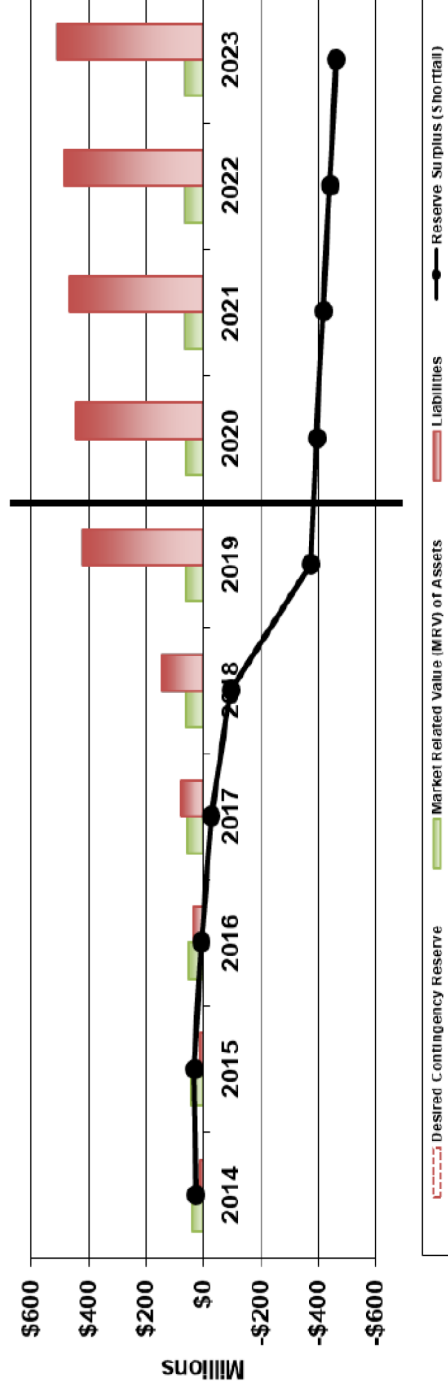
Annual Review and Valuation



BRAB - Benefits Department

VOLUNTARY SUPPLEMENTAL MAJOR MEDICAL PLAN (SMP) Historical and Projected Reserve Surplus / (Shortfall)

- The SMP reserve shortfall of \$371.7 million as of December 31, 2019 is projected to gradually increase.
- Contribution rates were last reset in 2017. We recommend the APA study the SMP participant contribution rates by Group to determine which rates are subsidized, and make changes as appropriate. This study is currently being undertaken by Segal.



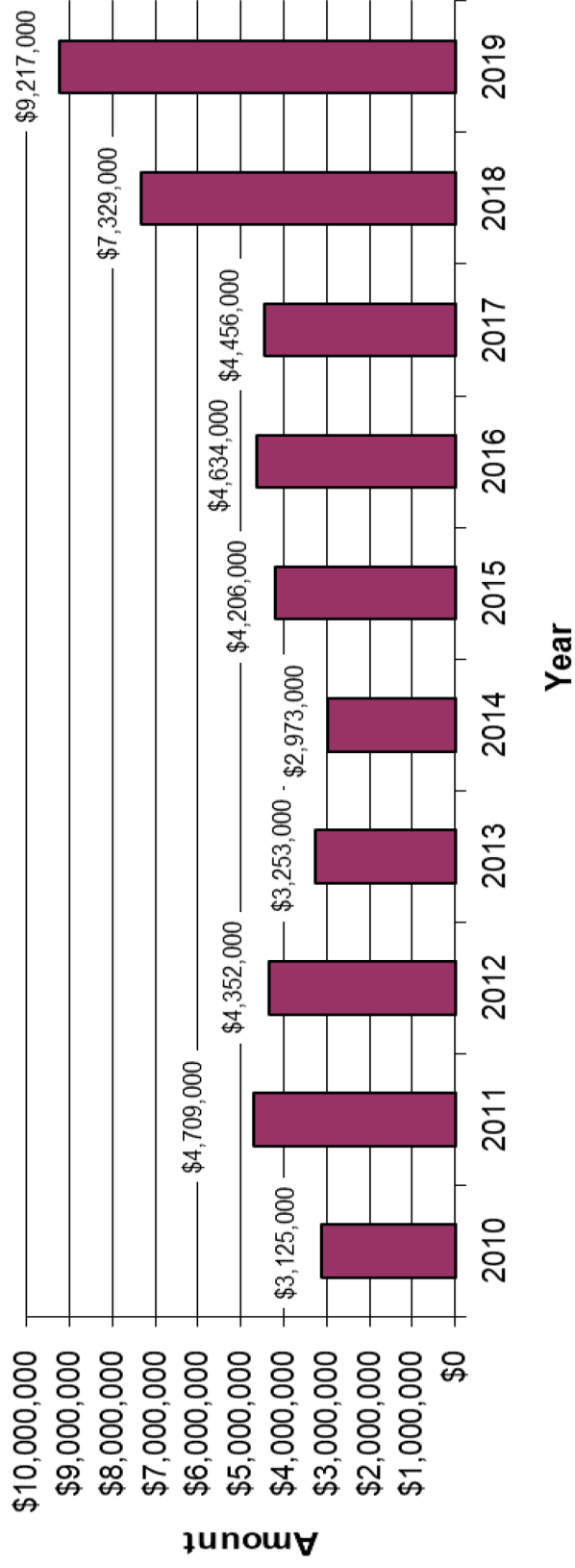
Supplemental Medical Plan

Annual Review and Valuation



BRAB - Benefits Department

Plan Payments by Year





A Message from the APA Benefits Department

Voluntary Supplemental Medical Plan (SMP) Rate Restructure

1. When was the SMP established?

The SMP has provided supplemental medical coverage for active and retired members and their surviving spouses and dependents since 1985.

2. What type of plan is the SMP?

A welfare benefit plan governed by ERISA and other federal laws

3. How was the SMP designed?









Originally, the SMP was designed to supplement the Retiree Medical Plan and Medicare Parts A, B, and D, and in some cases provided tertiary coverage for participants eligible for coverage under both Medicare and the Retiree Medical Plan. SMP coverage is secondary to a participant's other coverage in many cases. Over time, SMP coverage was expanded to provide primary coverage to individuals under the age of 65.

4. What does the SMP cover?

- For an active pilot, paying the active contribution rate, the SMP offers orthodontia and vision benefits coverage.
- For retirees and their eligible dependents, including surviving spouses, the SMP offers medical, dental, vision, and prescription drug benefits coverage. The level of coverage available depends on whether the participant is under age 65 and whether the participant has access to coverage under another plan(s), such as Medicare or the Company's Retiree Medical Plan (Retiree Medical Plan).

5. How does the SMP compare with Medigap?

Below is a chart from MedicareMall.com with a summary of information regarding Medicare supplemental insurance plans and Medicare Advantage plans. (*APA is not recommending or advocating Medicare Mall. Their chart is being used for illustrative purposes only.)

	 Medicare supplement insurance plans	 Medicare Advantage plans
 Doctors and hospitals	You can select your doctors and hospitals as long as they accept Medicare patients.	You may be required to use doctors and hospitals in the plan network.
 Referrals	You can see specialists without referrals.	You may need referrals and may be required to use network specialists.
 Network	No network restrictions. Coverage goes with you across the United States.	You may have network restrictions. Emergency care is covered for travel within the United States and sometimes abroad.
 Enrolling	You can apply to buy a Medicare supplement insurance plan any time after you turn 65 and join Medicare Part B.	Generally, there are specific periods during the year when you can enroll or switch to another Medicare Advantage plan.
 Costs	You pay a monthly plan premium in addition to your Part B premium. When you use services, your out-of-pocket costs are limited.	Generally, you pay a low or \$0 monthly plan premium in addition to your Part B premium. When you use services, you pay co-pays, co-insurance and deductibles.
 Prescription drug coverage	Prescription drug coverage is not included. Consider also purchasing a Medicare Part D plan.	Prescription drug coverage is included with most plans.

The SMP currently provides in-network and out-of-network coverage, with no referrals needed. Participants must meet plan eligibility requirements, pay monthly contributions, and follow plan guidelines, such as minimum requirements to obtain reimbursement for claims. The SMP offers medical, dental, vision, and prescription drug coverage to eligible retiree participants and their eligible dependents.

Please note that APA has no control over the structure or coverage provided by Medigap or other policies provided by third-party insurance companies, which are often subject to state insurance requirements. As with the SMP's coverage, the coverage provided by such policies may change from time to time. The best coverage options for each individual may depend on factors specific to that individual. Each APA member should carefully review their options and make the decision that is best for them, given their own personal needs and goals.

- 6. What are some things to know about Medicare Advantage or Medicare Supplement Plans?** Generally, participants must still be enrolled in Medicare Parts A and B and will still pay Part B premiums, which are deducted from social security checks. Medicare Part B premiums are

based on the participant's income, so this amount varies. There are several plans offered with both options, and each plan offers something different. Not all plans are the same, and plan coverage and requirements may change from time to time, similar to the SMP.

7. How is the SMP funded?

Eligible members pay monthly plan contributions while an active member of the Association to help prefund future benefits, as well as to fund benefits made available to active members. In addition, retired members pay plan contributions for the increased coverage opportunities they receive following retirement. Plan contributions are used to pay annual benefits and administration expenses, such as participant claims. When those expenses exceed contributions and investment income, it may become necessary for APA to adjust plan contribution rates, in order to ensure that the plan remains adequately funded.

8. How many times have the rates been increased on the SMP?

Since the inception of the plan, 36 years ago, the rates have increased six times. The rate increases have not always applied to every group, and the rates actually decreased in 2016 for certain participants.

SMP rate adjustments by resolution:

- R2004-99, "Contribution Increase – SMP"
 - Applied rate increases applicable in 2006, 2007, and 2008.
- R2012-28, "APA Voluntary Supplemental Medical and Custodial Care Benefit Plan Contribution Redesign"
 - The most significant changes occurred in 2013, when former President Keith Wilson addressed the need to increase the SMP rates due to increasing healthcare costs, changes in the SMP demographics, and concerns related to the Company's bankruptcy, among other things.
- R2013-30 Rev 1, "APA Supplemental Medical Plan Contributions and Coordination with Medicare and Other Health Plans"
 - Rather than imposing an automatic annual increase in contributions based on medical inflation, the Board decided to annually review and adjust contribution rates as necessary for each participant category.
 - A new, lower rate was added for retired participants who provide proof of unlimited medical coverage under any Other Group Health Coverage.
- R2016-57, "APA Voluntary Supplemental Medical and Custodial Care Benefit Plan Contribution Changes"
 - Due to claims experience and investment performance, the Board was able to decrease applicable rates for a couple of participant groups.
- R2017-23, "APA Voluntary Supplemental Medical and Custodial Care Benefit Plan Contingency Reserve Policy"
- R2017-24 Rev 1, "APA Voluntary Supplemental Medical and Custodial Care Benefit Plan and Custodial Care Benefit Plan Primary Retiree Medical Coverage and Open Enrollment"

- Established new rates effective Jan. 1, 2018, in connection with the addition of new primary coverage categories.
- R2021-28 Rev 1, “SMP Restructure of Participant Contributions”

9. What factors drive rate increases in the SMP?

Ever-increasing medical and prescription drug costs. A number of factors contribute to this situation, including behavior of medical providers, claims utilization (including high dollar claims over \$50,000), demographic changes, changes in legislation, and new compliance requirements applicable to the plan, medical inflation, and desired plan enhancements.

10. Why are the SMP rates increasing now?

On a cash basis for 2020, benefits and administration expenses were \$13.9 million, whereas contributions were \$8 million, resulting in a shortfall of \$5.8 million. If it had not been for investment income of \$8.4 million, the SMP reserves would have been called upon to make up for the shortfall.

11. How often are the SMP rates monitored?

The rates are monitored periodically, but at least annually. Adjustments are made as utilization and the funding needs of the plan change, including claims experience for particular participant groups. Rate adjustments are not made lightly, but changes in medical inflation can be unpredictable, and new adjustments may sometimes be necessary shortly following a prior adjustment.

12. How often are the SMP expenses monitored?

Plan expenses and contributions are monitored monthly, quarterly, and annually.

13. In R2021-28 Rev 1, why did the rates change, except for Group C?

In fourth quarter of 2020, AA changed the structure of the Retiree Medical Plan by moving the majority of these individuals to a Medicare Advantage Plan, a decision that was outside of APA’s control, but which affects participants in the SMP. Rates for this group remain unchanged until claims data becomes available, which will be reviewed for proper funding levels as with all other participant groups.

14. If I am going to enroll in this plan, should I expect any rate changes in the future?

APA reserves the right to adjust rates as needed in the future. There should never be an expectation that the plan’s rates will remain constant. That is not realistic with any plan that provides medical, dental, vision, orthodontia, or prescription drug coverage, the costs of which are affected by many factors outside of APA’s control.

15. Can I drop my SMP coverage before the Oct. 1 rate change?

Yes. Members need to email their cancellation request to Benefits.Sec@alliedpilots.org no later than Sept. 10, 2021. Any cancellation requests submitted after this date will be applied on a prospective basis, in accordance with the plan’s requirements, and the member will still be fully responsible for paying applicable contributions. Remember, once you terminate your

enrollment in the SMP, you cannot re-enroll except in limited circumstances outlined in the plan document.

Members should carefully review their plan coverage options and are responsible for making a determination on what is best for their personal situation. Members should consider consulting their own financial advisors, or other advisors, to determine the best choice for their needs.

16. Why were back contributions necessary during the SMP one-time open enrollment?

The SMP requires each member who desires to participate in the SMP to start contributing by the age of 55, or within six months of being hired, if over the age of 55 when hired. Back contributions were required for those participants who would have otherwise been ineligible to join the SMP if the special open enrollment opportunity had not been offered.

17. I am currently paying the active rate under the SMP, due to being awarded VORR, which granted me COBRA from the Company for a 30-month period. What happens to my contributions at the end of the 30 months?

You would need to contact the APA Benefits Department at the expiration of your COBRA. At this point, the SMP would become your primary coverage if you are under the age of 65, or secondary coverage if you were over the age of 65. Applicable rates would then apply.

Questions may be submitted to Benefits.Sec@alliedpilots.org.

Please note that the information provided in this document is intended to provide a summary of the SMP's current requirements as of June 2021, which may be amended at any time. If any information provided conflicts with the legal plan documents governing the SMP, the plan documents will control. A copy of the current SMP booklet, which has not yet been revised to reflect the new contribution schedule, is available at AlliedPilots.org/Benefits.

APA **ALLIED PILOTS ASSOCIATION**
Representing the pilots of American Airlines



O'Connell Building
14600 Trinity Boulevard, Suite 500, Fort Worth, TX 76155-2512

ADDRESS SERVICE REQUESTED

PRESORTED
FIRST-CLASS
US POSTAGE PAID
ARLINGTON, TX
PERMIT NO. 269