Fund

American Federation
of Musicians &
Employers' Pension Fund

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To: Contributing Employers

From: Board of Trustees of the American Federation of Musicians and Employers' Pension Fund

Date: July 26, 2019

We have enclosed two legally required notices that we send annually -- the **Annual Funding Notice for the Plan Year ended March 31, 2019** and the **Notice of Critical and Declining Status for the Plan Year ending March 31, 2020** – both of which contain information about the financial status of the Fund. It is particularly important to understand what "critical and declining" status means for the future of the Fund and the actions that must now be taken to preserve the Fund's ability to pay benefits to current and future generations of musicians.

The American Federation of Musicians and Employers' Pension Fund (AFM-EPF, the Fund) has faced a combination of daunting challenges – in particular, the Fund's investment losses during the Great Recession and rising benefit payments that increasingly exceed contributions. The effects of these challenges have now caused the Fund to enter "critical and declining" status. **Entering "critical and declining" status means that the Fund is projected to run out of money to pay benefits within 20 years.**

We know that employers do not want to see the Fund run out of money any more than the Fund's participants or Trustees do. Accordingly, we thought it important to write directly to you so that you understand the steps we are taking to avoid such a result.

What can be done to protect the solvency of the Fund?

Under a federal law, known as the Multiemployer Pension Reform Act (MPRA), if a pension fund is in "critical and declining" status, the Trustees can apply to the Treasury Department for approval to reduce benefits by an amount sufficient for the Fund to avoid "insolvency." A pension fund becomes "insolvent" when it has run out of money to pay benefits.

As shown in the Annual Funding Notice, the Fund has an estimated $1.8 billion in assets and about $3 billion in liabilities, which is the value of all the future benefits earned by participants. So, the Fund is about $1.2 billion underfunded. With every passing month, the Fund pays out much more in benefits than contributions bring in. The $1.2 billion underfunding gap between our assets and what we need to pay future benefits will continue to grow. And, the wider the gap gets, the harder it is to catch up. For withdrawal liability purposes, the underfunding is even larger, at just over $3.4 billion.

The reality is that there is no practical way that investment returns and contribution increases alone will be able to close the long-term, worsening gap between the money coming in and going out. Every year, if investment returns don't make up the shortfall between benefit payments and contributions, the Fund has to draw down assets, which leaves less of an asset base on which to generate investment returns the following year. For instance, looking ahead to 2034, our actuaries project that the Fund would have to earn over a 30% investment return just for assets to stay flat. It is not realistic to assume that we can consistently achieve investment returns that high. Our actuaries have also calculated that contributions would have to increase by 25% across the board immediately just to remain solvent over the next 30 years, and by 50% for the Fund to be projected to be fully funded 30 years from now. Contribution increases that high are not realistic.

Our projections currently show that the imbalance between benefit payments and contributions will continue to escalate as the Fund inches towards insolvency. That leaves the Trustees with two extremely challenging options – either to allow the Fund to run out of money and become insolvent or to apply for approval to reduce participants' benefits under MPRA. **Although reducing benefits will be painful, the Trustees have decided to seek permission to do so because running out of money would leave all participants with virtually no benefits in the future.**

Taking this step is important because it prevents the Fund from running out of money to pay benefits for current and future retirees, including those currently working and earning benefits. But we know it is important to employers for another reason as well – if this Fund becomes insolvent, there is heightened risk of liability to employers, including possible mass withdrawal liability. We are taking the steps necessary to improve our funding outlook for this Fund and to prevent insolvency. The tools available to us under MPRA were designed specifically to avoid this scenario and the risks it would pose to participants and employers alike.

The Fund Office is available to answer questions about withdrawal liability via the contact methods listed at the end of this letter. Additionally, the federal Pension Benefit Guaranty Corporation provides information about withdrawal liability on its website at **https://www.pbgc.gov/prac/multiemployer/withdrawal-liability**.

What happens next?

Benefit reductions will not happen immediately. The Trustees and the Fund's expert advisors have begun preparing a MPRA application to submit to the Treasury Department. While a final decision has not been made on every term of the benefit reduction, the Trustees have decided that the proposed reduction will protect the $1 benefit multiplier that has been in place since January 1, 2010 and is the current accrual rate for future service.

Due to the complexity and requirements of the process, our application will likely not be filed until at least the end of 2019. Any benefit reductions approved by Treasury would not be expected to start until late 2020 or the beginning of 2021 at the earliest.

Until all that happens, benefits will be paid without any change in the amount. Both before and after the Fund's application is approved, participants can continue to earn new benefits through covered employment.

Is Congress working on legislation that may help the Fund? If so, why is the Fund reducing benefits?

For more than a year, Congressional leaders have been undertaking negotiations for a bipartisan legislative solution that would provide assistance to the Fund and the more than 120 other multiemployer pension funds across the nation covering 1.3 million participants that now face the prospect of insolvency.

The AFM-EPF Trustees have been advocating for such legislation, but we also know that we cannot sit idly by waiting for that to happen. The stakes are too high to avoid taking action while we wait for Congress to act. We have a responsibility to do everything in our power to ensure that the Fund remains solvent for the long-term.

The Fund website, at **www.AFM-EPF.org/Congress.aspx,** has more information about this effort. We encourage employers to review the information and tools on this webpage and to reach out to their Members of Congress.

How can I stay informed?

We will provide additional updates at future points in the MPRA process. Additional information about these and other topics is available on the Frequently Asked Questions page under the Stay Informed tab on the Fund website (**www.AFM-EPF.org)**.

In addition, we have enclosed an **Employer Address Update Form** for your review and action, if necessary. If someone else in your organization should be receiving information from the Fund Office directly, please be sure to use this form to let the Fund know that.

As always, the Fund Office is available to answer questions regarding these Notices. Questions should be directed to the Fund Office by phone to Customer Service at 1-800-833-8065 (extension 1311), by e-mail through the "Contact Us" link on our web site (**www.AFM-EPF.org**) or by mail.

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The benefits provided by the Fund are an important part of our participants' retirement security and the compensation package provided by our employers. The decision to pursue benefit reductions was heartbreaking and not taken lightly, but it is important for all stakeholders to protect the Fund and its ability to pay benefits long into the future.