American Federation
of Musicians &
Employers' Pension Fund

Fund

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To: Contributing Employers
From: Board of Trustees of the American Federation of Musicians and Employers' Pension Fund
Date: July 29, 2020

Enclosed are two legally-required annual notices– the **Annual Funding Notice** and the **Notice of Critical and Declining Status.** Both contain information about the financial status of the American Federation of Musicians and Employers' Pension Fund ("AFM-EPF" or "the Plan").

The Plan first entered "critical and declining" status in 2019, which means that it is projected to run out of money to pay benefits within 20 years. The Plan is currently projected to run out of money in the Plan year ending March 31, 2035. The Plan has reached this state due to a combination of daunting challenges – in particular, the Plan's investment losses during the 2008-2009 financial crisis and rising benefit payments that increasingly exceed annual contributions.

As of March 31, 2019, the Plan had $1.8 billion in assets and about $3.1 billion in liabilities, which is the present value of all the benefits earned by participants payable in the future (audited FY2020 figures are not yet available). So, at that time the Plan was about $1.3 billion underfunded, and this underfunding will continue to grow over time. For the purpose of calculating the liabilities employers face should they withdraw from the Plan (known as "withdrawal liability"), the underfunding is measured on a different basis and is about $3.6 billion.

OUR EFFORTS TO PROTECT THE SOLVENCY OF THE PLAN

In January 2020, we informed employers that the Trustees decided to try to save the Plan by filing an application with the U.S. Treasury Department to reduce benefits under the Multiemployer Pension Reform Act of 2014 (MPRA). As of the writing of this letter, the application is still in review with Treasury. If approved, the benefit reductions will be effective January 1, 2021.

Although reducing benefits will be painful, the Trustees have sought permission to do so because running out of money would mean a much greater benefit loss in the future. Under the proposed plan for benefit reductions, many participants will either have no benefit reduction at all or the size of their reduction will be limited because MPRA provides certain protections for age, disability and small benefits. Our proposed reduction is designed to preserve the Plan's solvency, protect participants from the likelihood of even greater reductions if the Plan becomes insolvent and ensure that your employees continue to earn meaningful benefits that they can feel confident that they will receive upon retirement.

Further, if our Plan becomes insolvent, there is heightened risk of liability to employers, including the potential of mass withdrawal liability. The tools available to us under MPRA were designed specifically to avoid this scenario and the risks insolvency would pose to both participants and employers.

The Fund Office is available to answer questions about withdrawal liability via the contact methods listed at the end of this letter. A document explaining the Plan's withdrawal liability rules and procedures is available on the Plan website (**www.AFM-EPF.org**) under Employers > Policies and Procedures > Withdrawal Liability. 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?

Treasury has until August 11, 2020 to review our application and decide if it meets all of the requirements under MPRA. Treasury officials suggested that they would use all of the time available to them in this review period. If the MPRA application is approved, Treasury will mail ballots to Plan participants and beneficiaries of deceased participants within 30 days of approval. If the participant vote approves our MPRA application, Treasury will give final authorization for the Fund to implement the benefit reductions. Benefit reductions would be effective January 1, 2021.

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

The filing of a MPRA application has no effect on how employer contributions should be made or reported to the Fund Office.

IS CONGRESS STILL WORKING ON LEGISLATION THAT COULD HELP THE PLAN?

The Trustees have been working alongside other multiemployer plans, unions and employers to urge Congress to pass a bipartisan compromise that will help our Plan and treat participants fairly. As of the writing of this letter in mid-July, Democrats and Republicans have two competing proposals to address the nationwide multiemployer pension crisis and the funding issues facing our Plan.

The Trustees support the Democratic proposal, called the Emergency Pension Plan Relief Act. The Republican proposal, as currently written, contains serious flaws that would negatively affect employers, participants, our Plan and the multiemployer system as a whole. Such flaws include imposing overly burdensome benefit reductions, levying excessive PBGC premiums, mandating changes to the discount rate and imposing fees on unions and employers, which would undermine their support for plans.

However, neither proposal is likely to pass Congress in its current form, so Democrats and Republicans need to come together to negotiate a bipartisan solution. If Congress passes legislation that allows us to withdraw our MPRA application or roll back benefit reductions while still avoiding insolvency, then the Trustees plan to do that.

The Plan website, at **www.AFM-EPF.org/Congress.aspx,** has more information. We encourage employers to review the information and tools on this webpage and please reach out to their Members of Congress encouraging them to act—urgently and in a bipartisan manner.

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 Plan website (**www.AFM-EPF.org)** under the Stay Informed menu.

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

As always, the Fund Office is available to answer questions regarding this notice. The Fund Office has implemented remote operations in response to the COVID-19 pandemic. The most efficient way to contact the Fund Office is by e-mail through the "Contact Us" link on our website (**www.AFM-EPF.org**). The Fund Office phone system (212-284-1311) will route to voicemail. Fund staff will check messages regularly and respond as promptly as possible. Correspondence by U.S. postal mail may be delayed throughout the closure.

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The benefits provided by the Plan are an important part of our participants' retirement security and the compensation package provided by our employers. Reducing benefits now, while painful, will help ensure that the Plan is able to continue paying benefits long into the future. Especially during this time of great uncertainty for the music industry and the economy at large, we must make the difficult but responsible decisions needed to preserve that security for our current and future participants.