Plan

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To: Contributing Employers

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

Date: January 6, 2021

On December 30, 2020, the Board of Trustees of the American Federation of Musicians and Employers' Pension Fund ("AFM-EPF" or the "Plan") submitted a second application to the U.S. Treasury Department for approval to reduce benefits under the Multiemployer Pension Reform Act of 2014 (MPRA). The Fund's prior application, filed in December 2019, was denied by the U.S. Treasury Department for technical reasons related to two assumptions used in the application. However, the same considerations that led the Trustees to file the first application exist today. In fact, they have worsened because the COVID-19 pandemic has resulted in a significant near term reduction in contributions to the Plan. Therefore, the benefit reductions required to save the Plan have increased. Even so, the Trustees submitted a second application because there is no other viable way to save the Plan for the long term.

We have enclosed a legally-required notice that has been mailed to all of the Plan's participants and beneficiaries of deceased participants. This notice provides background information on the Trustees' decision to reduce benefits and a point-by-point explanation of how benefits will be reduced. Participants are also receiving an informational newsletter and a personalized statement showing their estimated benefit should the reduction be approved and go into effect on January 1, 2022.

As explained in the attached notice, the Trustees are taking this action to prevent the Plan from running out of money to pay benefits. The Plan has faced 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. In July 2019, we informed employers that these challenges caused the Plan to enter "critical and declining" status, where it remains this year. Entering "critical and declining" status means that the Plan is projected to run out of money to pay benefits within 20 years.

We know that employers are committed to the financial security of your employees and do not want to see the Plan become insolvent. Accordingly, we are keeping employers apprised of the steps we are taking to avoid such a result. Some of the information in this letter is identical to what we communicated when we filed the first application. Because we are now submitting a second MPRA application, we thought it important to once again provide employers with the full picture.

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

Under MPRA, if a pension fund is in "critical and declining" status, the Trustees can apply to the U.S. Treasury Department for approval to reduce retiree and vested benefits by an amount sufficient for the Plan to avoid insolvency.

As of March 31, 2020, the Plan had an estimated $1.6 billion in assets and about $3.2 billion in liabilities, which is the present value of all the benefits earned by participants payable in the future. So, the Plan was about $1.6 billion underfunded at that time. While the markets have improved since March 31, this is only a short-term fix, 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 as of 2020 is estimated at just over $4.6 billion.

Although reducing benefits will be painful, the Trustees are seeking permission from the U.S. Treasury Department 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, the majority of 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.

The proposed reduction is designed to preserve the Plan's solvency, protecting participants from the likelihood of even greater reductions if the Plan becomes insolvent and ensuring that your employees continue to earn meaningful benefits that they can feel confident in receiving 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?

Benefit reductions will not happen immediately. Treasury has until August 12, 2021 to review our application and decide if it meets all of the requirements under MPRA. If the MPRA application is approved, Treasury will mail ballots to all 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 Plan to implement the benefit reductions. **The Trustees expect to implement benefit reductions effective January 1, 2022.**

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 and reported to the Fund Office.

Isn't Congress working on legislation that may help the Plan? If so, why is the Plan seeking Treasury Department approval to reduce benefits?

For more than three years, Congressional leaders have been working to develop a bipartisan legislative solution that would provide assistance to our Plan and the 124 other multiemployer pension plans across the nation, covering over 1 million participants, now facing the prospect of insolvency. Multiple proposals have emerged, but Congress has not yet reached the bipartisan consensus needed to pass legislation in both chambers and have it signed into law by the President.

The Trustees continue to advocate strongly for such legislation and we appreciate the efforts by our lawmakers, but we cannot sit idly by waiting for that to happen. We have a responsibility to do everything in our power to ensure that the Plan is able to pay benefits for the long-term. If the new Congress and administration enacts legislation that allows us to withdraw our MPRA application or roll back benefit reductions while still avoiding insolvency, then the Trustees plan to pursue that course.

How can I stay informed?

We will provide additional updates at future points throughout the MPRA process. Additional information about this and other topics is available on the MPRA Benefit Reductions page and the Frequently Asked Questions page under the Stay Informed tab on the Plan website (**www.afm-epf.org)**. An electronic version of this cover letter, the attached notice and informational newsletter sent to participants are available on the Recent Mailings page under the Stay Informed tab.

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. Questions should be directed to the Fund Office by phone to the Pension Fund Help Line at 212-284-1311, by e-mail through the "Contact Us" link on our web site (**www.afm-epf.org**) or by mail at the address in the header of this letter.