January 2021

SAVING THE PLAN FOR ALL OF US

2020 has been a difficult year for our entire nation. And, as you are aware, the economic impact of the COVID-19 pandemic has hurt those in the performing arts more than most. You and over 50,000 others count on the American Federation of Musicians and Employers' Pension Fund (Plan) for current and future benefits. Now, in the face of so much uncertainty, the imperative to protect as much of those benefits as possible — for all those who have earned benefits — is even more urgent. For this reason, we have decided to submit a new application to the U.S. Treasury Department to save the Plan by reducing benefits.

When our first application to reduce benefits was denied based on some technical issues, our problems didn't go away. In fact, they have worsened because the loss of work that has hurt so many also means a significant reduction in contributions to the Plan. Largely because of this, the benefit reductions required to save the Plan have increased. Even so, benefits under this next application are still higher than they would be if the Plan runs out of money. If we allow the Plan to fail, benefits would continue as usual for a while, but at the expense of those who come later. By making this collective sacrifice now, we are doing our best to secure as much as possible for everyone.

Projections show that these benefit reductions will still allow us to stabilize the Plan, which is the right thing to do for the good of all participants. Keep reading to learn more about this second application, what happens next, and what it could mean for you.

What You Need to Know

- **Nothing is happening to your benefit yet.** Even though this is our second application, the government requires that we follow the same process before benefits can be reduced, which is expected to take up to eight months. The effective date for benefit reductions, if approved, would be January 1, 2022.
- Reducing benefits allows us to protect the $1.00 multiplier—the core promise of the Plan.
- The flat across-the-board reduction of benefit multipliers higher than $1.00 is 30.9%.
  - This does not mean your total benefit is reduced by 30.9%. This part of the reduction applies only to benefits earned through December 31, 2009. So, the larger the portion of your benefit earned after that date, then the smaller the impact of the 30.9% reduction on your total benefit.
  - There are several other components of the benefit reduction in addition to the 30.9% which are the same as last time. Depending on your circumstances, you may be affected by only one or two components of the benefit reduction, several, or none. And, which components affect you may be different in this new application.
- Under the Multiemployer Pension Reform Act (MPRA), benefits **would not be reduced** for those who are 80 or older as of January 31, 2022, and reductions would be less for those between ages 75 and 80 as of that date. And, the portion of benefits paid to a participant as a disability pension is also protected.
- Your benefit under this proposed reduction would be equal to or higher than what you'd get if the Plan ran out of money and the federal Pension Benefit Guarantee Corporation (PBGC) paid a guaranteed benefit. This is especially

About the Benefit Reduction

An important and required notice in this packet is the Notice of a Proposed Reduction of Your Pension Benefit. This notice and your personalized estimate will answer the following questions:

- What is my proposed benefit reduction?
- Why is the Board of Trustees proposing to reduce benefits?
- What will happen if the Plan runs out of money?
- How did the Board of Trustees decide whose benefits to reduce and by how much?
- What comes next?

significant considering that the PBGC currently projects that its multiemployer program will run out of money by the end of its 2026 fiscal year. (See the enclosed personal benefit estimate for more information.)

Overview of the Proposed Reduction

The enclosed “Notice of a Proposed Reduction of Your Pension Benefit” provides details of each component of the benefit reduction. However, it may be helpful to start with an overview of some key points.

What’s Different From the Previous Application

There are only two changes to the structure of the proposed reduction:

- The flat across-the-board reduction of multipliers higher than $1.00 is 30.9% this time.
- If the reduction in your benefit comes out to less than $1.00 per month, it will not be reduced.

The change that matters most, of course, is the increase in the flat across-the-board reduction, which is due mainly to the COVID-19 pandemic. For decades, the Plan has been paying out more in benefits each year than contributions brought in. This year, due to the large drop in work, contributions to the Plan have been significantly lower. And, they likely will continue to be depressed for the next few years. Less income means benefits have to be lower for the Plan to survive.

What’s the Same as the Previous Application

After many hours of consideration, the Trustees concluded that the structure of reductions proposed in the first application continues to be the most equitable way to address this no-win situation.

There are two areas that we revisited before ultimately deciding not to make a change: the elimination of the early retirement subsidy and the 40% maximum reduction.

Elimination of the Early Retirement Subsidy

The Plan allows you to start your benefit at any age from 55 through 64 when you retire early. Your benefit is calculated based on your age when you start your benefit (called the “pension effective date”). Like Social Security, the younger you are, the lower the multiplier. That’s because the earlier benefit is more valuable from an actuarial perspective—you are getting money sooner (which is more valuable than money you get later) and you are getting it for a longer time period.

Back when the Plan could well afford it, the multipliers for ages 55-64 were not fully reduced to make them equally valuable (what actuaries call “actuarially equivalent”) to the age-65 benefit, in recognition of the fact that this can be a difficult industry to work in all the way to age 65. Since the early retirement benefit was not fully reduced, it carries what actuaries call a subsidy.

We understand that elimination of the early retirement subsidy in our first application concerned many of you who didn’t realize that the portion of your benefit earned before 2004 was subsidized. Because of that, we revisited this element in-depth before proceeding. But, the issue came down to one of our core principles in this process — leveling the playing field.

Anyone who retired on or after June 1, 2010 **already** gets a fully actuarially equivalent benefit regardless of whether that benefit is taken at age 55, age 64, or anywhere in between. In other words, their benefits were cut long before the MPRA application. So, someone who retired younger than age 65 before June 1, 2010 has already received thousands of dollars more from the Plan than a person with the **same contributions** who retires at the **same age** but happened to start their benefit after June 1, 2010 will receive. That is not equitable.

To learn more about the early retirement subsidy, see the “Why Do Those Who Retired Early Have Bigger Cuts?” *Pension Fund Notes* newsletter from March 30, 2020 in the “Stay Informed” section at www.afm-epf.org.

Maintaining the 40% Maximum Benefit Reduction

The 40% maximum benefit reduction is not required by MPRA. The Trustees chose to include this cap in the first application to protect participants from what otherwise could have been cuts of 60% or more. Even with a higher, flat across-the-board reduction this time around, we wanted to continue to ensure that no participant's benefit was reduced more than 40%. In the second application, this element provides protection to even more participants.

The Path Ahead

If we do nothing and the Plan runs out of money, a federal government insurer called the Pension Benefit Guaranty Corporation (PBGC) is supposed to provide funding to keep paying benefits. However, it only pays a limited amount of a participant's benefit and, absent a change in the law, the PBGC currently projects its multiemployer program will become insolvent by the end of its 2026 fiscal year. If the PBGC were to become insolvent, it would not be able to pay even the benefits it is supposed to guarantee. In that case, your benefit could be much less than even the current PBGC-guaranteed amount.

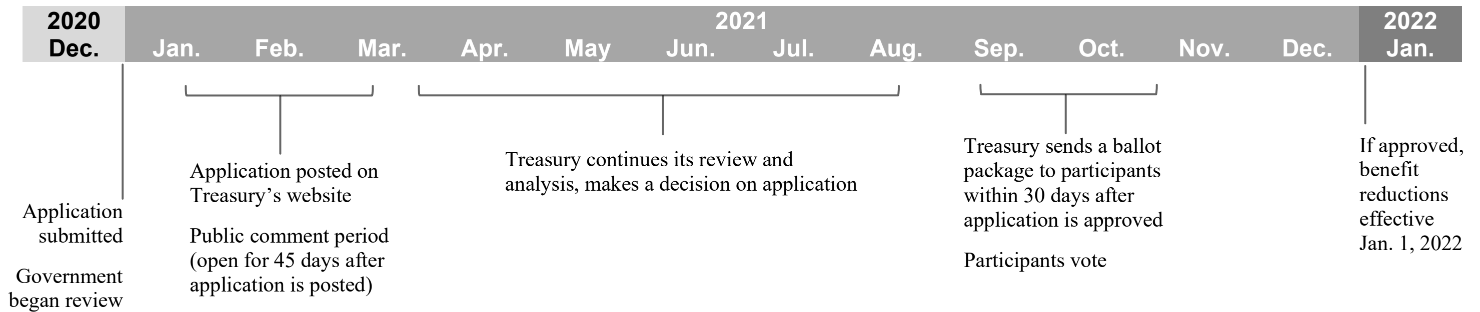
Under MPRA, if a Plan is in "critical and declining" status (as the Plan currently is), the Trustees can apply to the U.S. Treasury Department for approval to reduce participants' benefits by an amount sufficient for the Plan to avoid insolvency.

The Trustees continue to advocate strongly for federal legislation that will protect our Plan and the 124 other multiemployer pension plans that face insolvency within the next 20 years. But we also know that we cannot sit idly by waiting for that to happen. 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 pursue that course.

Reducing benefits is a painful decision, but we continue to believe that trying to save the Plan is our best path forward – for current and future generations. It's important to be aware of what's likely to happen either way:

Try to save the Plan	Let the Plan run out of money
Even with the higher cut in this application, reducing benefits ourselves results in smaller cuts than if the Plan became insolvent and benefits were limited to the PBGC guarantees. See the enclosed benefit estimate for a comparison.	For many participants, PBGC benefits would be lower than benefits under this proposed reduction. The PBGC's multiemployer program is also in financial trouble – if it runs out of money, benefits could be much less.
More participants help shoulder the burden (including those who accrued benefits at a higher level than current participants and profited from benefit increases over the years).	Active participants have already made sacrifices by accruing lower benefits. If the Plan runs out of money, they would likely see those benefits shrink even further.
Under the proposed reduction, the people who are least able to bounce back have some protections, including those who are 80 or older as of January 31, 2022, and those between 75 and 80 as of that date. The portion of benefits paid to a participant as a disability pension is also protected.	If the Plan runs out of money, benefits are subject to cuts across the board. And if the PBGC runs out of money, **no one is protected from reductions.**
Best opportunity to continue benefits for current and future generations.	Ends a vital element of retirement income for Plan participants that we've had for generations.

Timeline



What Comes Next

The government has 225 days (about 7½ months) from the date we submit our application to approve or reject it.

In the meantime:

- Review the information in this packet.
- Once the application is posted, you can go to www.treasury.gov/mpra to review it and share your comments.
- If the application is approved, you'll receive a voting ballot from the Treasury Department within 30 days of approval.
- When the voting period ends, the Treasury Department will post the results of the vote on its website.
- Visit the "Stay Informed" section of the Plan's website at www.afm-epf.org for *Pension Fund Notes* and FAQs with more in-depth information.

Important Definitions

These definitions might come in handy as you review this newsletter and enclosed materials:

Benefit Multiplier: The dollar amount by which each $100 of contributions is multiplied to determine the amount of your monthly pension benefit. It varies with your age at your Pension Effective Date and the time period in which the contributions were earned. A higher multiplier results in a higher monthly benefit.

Critical and Declining Status: The Plan's current status. This funded status means the Plan is projected to run out of money within 20 years.

Multiemployer Pension Reform Act ("MPRA"): A law passed by Congress in 2014 that created the new "critical and declining" funded status for multiemployer pension plans and allowed plans in that status to reduce earned benefits upon meeting specified requirements.

Pension Benefit Guaranty Corporation ("PBGC"): A U.S. government agency that insures pension benefits up to a maximum amount set by law. Pension plans such as the AFM-EPF are required by law to pay annual premiums to the PBGC.