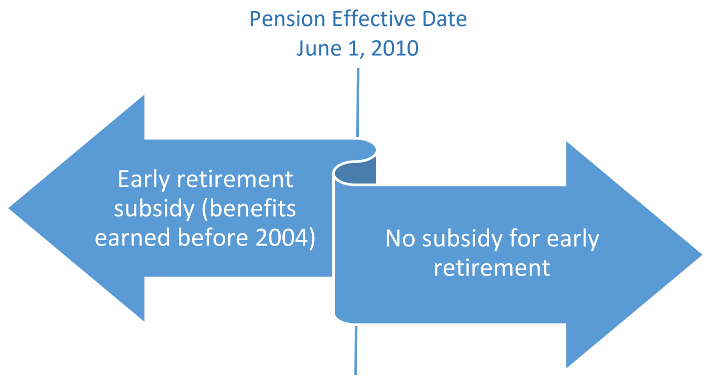
Pension Fund Notes

Why Do Those Who Retired Early Have Bigger Cuts?

The short answer:
Those who retired before June 1, 2010 (and before age 65) are currently receiving a richer benefit for the contributions they earned before 2004 than those who retired later.



Benefits earned before 2004 used to include an early retirement subsidy

Pension plans are generally designed to produce a benefit that starts at normal retirement age – usually age 65. For a payment made earlier (at age 55, for example) to be equivalent in value to a payment at age 65, the amount has to be reduced. When you start your benefit early, but it isn't **fully** reduced to make it the "actuarial equivalent" of the benefit paid at age 65, it is called "subsidized." Click here to learn more about how early retirement works, why multipliers are reduced for early retirement, and how the early retirement multipliers are determined.

The difference an early retirement subsidy can make

An early retirement subsidy can make a huge difference. In fact, someone in the Plan who retired early before June 1, 2010 has already received thousands of dollars more from the Plan than the person with the **same contributions** and retiring at the **same age** who happened to start their benefit later.

Started benefit in 2009	**Started benefit in 2011**
Both start pension benefits at age 60, **same** years of service, **same** contributions ($27,000 for benefit period A, $1,800 for benefit period B, $1,000 for benefit period C, and $200 for benefit period D*).	
Subsidized multipliers were used for contributions earned through December 31, 2003 (benefit period A)	All multipliers were unsubsidized ("actuarially equivalent")
Monthly benefit at age 60: **$1,063**	Monthly benefit at age 60: **$801**
The $262 per month difference is the early retirement subsidy. Over 10 years, this difference adds up to **over $31,000**. The additional amount from the subsidy alone is more than the total contributions that were made on behalf of this participant over their career.	

*Benefit multipliers have changed over time; therefore, different multipliers apply to contributions earned during various benefit periods.

If the participants in the example above had both waited to start their benefits at age 65, their benefit amount would have been the same – $1,355 per month. This example shows current benefits, without the proposed benefit reduction.

Removing the subsidy from any benefits that still have it puts participants on a more equal playing field

Anyone who retired on or after June 1, 2010 **already** gets an 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 reduced before the MPRA application.

The cuts are higher for those who retired before June 1, 2010 because these people are for the first time incurring the reductions that were already applied to others. If the MPRA application is approved, the early retirement subsidy will be removed from the monthly benefit amount *going forward* − this change does **not** affect previous payments received.

Couldn't this have been done differently with a flat across-the-board cut and no reduction to early retirement?

Absolutely, and that's something that was considered. However, when applying the equitable factors set forth in the law, the Trustees determined that it was not fair that those who had started to collect their early retirement benefits prior to June 1, 2010 should continue to receive the valuable subsidy at the cost of a higher reduction in the age-65 multipliers.

Yes, younger people have more time to "make up" the difference. But, that difference is going to have to come out of their own pockets. There is simply no way for benefits being earned at $1.00 to ever catch up. Even with the subsidy removed and the 30.9% reduction, the age-65 multiplier for contributions received before 2004 is $3.21 − more than 3 times the level of benefits that are being earned now.

The Trustees believe that preserving the $1.00 multiplier, leveling the playing field for all participants to the maximum extent possible, and minimizing the flat percentage cuts were fair and equitable principles to be used in designing the reductions. The fact that, in general, the participants with the largest benefits are burdened with the highest cuts (subject to the age, disability and PBGC-based limitations) is also equitable, though the Trustees also took care to limit the magnitude of anyone's cut to 40%. Any cut to musician pensions is painful, but the Trustees believe that they designed the reduction plan in as fair a way as possible.

Pension Fund Note

About the Early Retirement Subsidy

Back when pension plans could afford it, it was very common to subsidize early retirement benefits. All kinds of industries recognized the fact that their members often could not work until the normal retirement age of 65 because of the physical nature of their work.

How does early retirement work?

Before we can explain the subsidy, we need to cover what early retirement means in the first place. Pension plans are generally designed to produce a benefit that starts at normal retirement age – usually age 65. Many plans, including the AFM-EPF, allow participants to retire and start their benefits at an earlier age.

The AFM-EPF Plan allows you to retire early and start your benefit at any age from 55 through 64. Your benefit is calculated based on your age when you start your benefit (called the pension effective date). The younger you are, the lower the multiplier. It's similar to Social Security. You can start your Social Security benefit as early as age 62, but it will be reduced compared to what you would get at your normal retirement age.

Why are the multipliers lower for early retirement?

Let's say someone was entitled to a monthly benefit at age 65 but instead took that same amount at an earlier age. That benefit would be worth a lot more and cost the plan more to provide. This is true for two reasons:

1. The person would get that payment for a longer period of time, so they are getting more money by starting early.
2. The person is getting money sooner, and money paid sooner is worth more than money paid later. That's because when money comes out of the plan early, that money isn't available to earn investment income for as long a period of time. And it is worth more to the person who got the money earlier because he or she can invest it for longer. (This is sometimes referred to as the time value of money.)

In order for a benefit paid before age 65 to be equivalent in value to a benefit at age 65, the amount has to be reduced. That lower amount is called the "actuarial equivalent" of the age-65 amount. (The term "actuarial" is used because in order to figure out how much to reduce the age-65 benefit, actuaries have to make certain assumptions like how long people are expected to live and what interest rate to use to figure out the time value of the money described above.)

$4.65 multiplier at age 65	=	$1.70 multiplier at age 55

An actuarial reduction isn't a penalty because someone took their benefit early. It is just a mechanism for making the early benefit equivalent in value to the age-65 benefit. For the AFM-EPF, the early retirement multipliers were reduced to their actuarial equivalents going forward for contributions beginning in 2004.

Then what is a subsidy?

A subsidy is when the amount paid before 65 isn't fully reduced to make it the "actuarial equivalent" of the benefit paid at age 65. In other words, the benefit paid at early retirement is more valuable than the age-65 benefit. Because it is not fully reduced to the actuarial equivalent, the earlier payment is called "subsidized."

$4.65 multiplier at age 65	<	$2.33 multiplier at age 55

Another way to look at it is this:
A $2.33 multiplier at age 55 is equivalent in value to a $6.37 multiplier at age 65 instead of $4.65.

Even though the monthly payment for a subsidized early retirement benefit is lower than the age-65 benefit, these benefits cost the Plan additional money because the amount was not reduced all the way. No one did anything wrong by taking early retirement and receiving this subsidy. The subsidy was built into the Plan when the Plan could afford it, to help lessen the impact of the early retirement adjustment, recognizing that it was often difficult to work in this industry until age 65. Ultimately, the subsidy for benefits earned before 2004 had to be eliminated because of its significant cost to the Plan. Click here to learn more about why the subsidy is being eliminated under the MPRA reduction.