**To:** AFM, AFM Locals, and Participants and Beneficiaries Receiving Benefits

**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 for participants 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.**

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## What can be done to protect our participants' pensions?

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. It is fair to ask whether a painful solution like benefit reductions is the right one.

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.

The Federation and AFM Locals have bargained significant contribution increases over the past several years, and in 2018 the Trustees required a 10% increase in employer rates of contributions for all existing bargaining agreements as they renew. But the reality is that there is no practical way that contribution increases and investment returns alone will be able to close the long-term, worsening gap between the money coming in and going out — even though these recent contribution increases have reduced the amount of benefit reductions that would be necessary under MPRA. 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 difficult step is important because it prevents the Fund from running out of money to pay benefits for current retirees and those currently approaching retirement. But it's important for another reason as well — the Trustees are committed to taking the steps necessary for the Fund to be around decades from now to pay the benefits for those who are currently working and earning benefits at the $1 multiplier.

## 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. 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.

When the application is submitted, the Fund will mail a notice to each of our 50,000 participants and beneficiaries of deceased participants. This notice will include an individualized estimate of the proposed reduction to their monthly benefits.

Congress and Treasury have created a lengthy, complicated MPRA approval process designed to protect participants by ensuring that any approved benefit reductions are necessary and are expected to actually keep a pension fund from running out of money in the long-term. This process is expected to take at least a year and includes review, public comment, Treasury approval and a participant vote.

**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.

## How will benefit reductions be structured?

MPRA requires that benefit reductions be shared equitably, taking into account various factors. It also requires that the reductions be based on the Fund's financial condition as of the end of the calendar quarter before the application is filed. The Trustees do not yet know the precise dollar amount of the overall reduction that is needed to protect the Fund's solvency, nor how much any individual's reduction will be.

Even without that information, the Trustees have been working on the general design features of a benefit reduction and figuring out how the reductions can be shared equitably. 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. The Trustees anticipate reducing the other, higher multipliers by a flat percentage amount. As part of the reduction, the Trustees also expect to propose eliminating some of the Fund's unique benefit features that were instituted when the Fund was in excellent financial condition and could afford them. The Trustees also anticipate having a maximum percentage benefit reduction, so that no participant can have his or her benefit reduced more than this maximum percentage.

MPRA also includes specific protections that limit benefit reductions for different categories of participants based on their age, the amount of their benefit and whether they are receiving a disability benefit from the Fund.

For example, participants who are at least 80 years old or are receiving a disability pension cannot have any reduction to their benefit. Those who are between 75 and 79 will receive partial protection from benefit reductions, calculated on a sliding scale based on age. These same age protections apply to beneficiaries receiving survivor benefits at the time that reductions are effective. In addition, there will be no reduction for participants whose benefit is below 110% of what the federal Pension Benefit Guaranty Corporation (PBGC) would pay if the Fund ran out of money (assuming the PBGC does not run out of money itself). Taking all of these protections into consideration, the Fund's actuaries estimate that nearly 60% of our participants are completely protected from benefit reductions under MPRA.

As a result, while the multipliers above $1 will be reduced by the same percentage, individual participants may be affected by the limits described above in different ways.

## Is Congress working on legislation that may help our Fund? If so, why are we reducing benefits?

For more than a year, Congressional leaders have been undertaking negotiations for a bipartisan legislative solution that would provide assistance to our 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 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 is able to pay benefits for the long-term. 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.

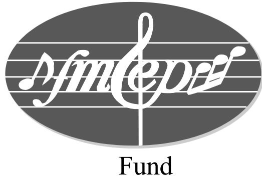
Participants can visit the Fund website at: **www.AFM-EPF.org/Congress.aspx** to learn more about this effort and how they can make their voices heard in Congress.

## How can I stay informed?

We will continue to keep participants updated throughout the MPRA process. We strongly encourage all participants to visit the Fund website at **www.AFM-EPF.org** and review the Frequently Asked Questions page under the Stay Informed tab, which contains more detailed information about these and other topics. We have enclosed answers to several of the most frequently asked questions within this mailing. Participants can also register on the Fund website to receive the *Pension Fund Notes* email newsletter, which contains the latest news and information from the Fund.

In addition, as required by law, the Trustees appointed an independent Retiree Representative, who has the job of advocating for retired and "deferred vested" participants (inactive participants entitled to benefits who have not begun collecting a pension yet) throughout the MPRA process. The Retiree Representative will continue to communicate with retired and deferred vested participants. Information about the Retiree Representative is available on his website at **www.AFMRetireeRep.org.**

Your pension benefits are an important part of your retirement security. The decision to pursue benefit reductions was heartbreaking and not taken lightly. But the difficult truth is that reducing benefits is the only remaining option to preserve our Pension Fund — both for those at or near retirement and those who are currently earning benefits for the future. As Trustees, our primary goal is to protect the Fund and its ability to pay benefits long into the future.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**Frequently Asked Questions**

The following questions and answers are excerpted from the full FAQ that is available on the Fund's website at **www.AFM-EPF.org**. We strongly recommend that participants visit this FAQ page under the website's Stay Informed tab for answers to more than 30 questions about the status of the Fund, future benefit reductions under the Multiemployer Pension Reform Act (MPRA) and other topics.

**How much will participants' benefits be reduced?**

The Trustees will not know the total amount of benefit reductions or each person's individual benefit reduction until just before an application is submitted to the Treasury Department under the MPRA. This is because MPRA provides very strict rules about how much benefits can be reduced.

Specifically, MPRA contains something many people refer to as the "Goldilocks rule." The Goldilocks rule requires that proposed benefit reductions be sufficient to ensure that a fund is projected to remain solvent for at least 30 years. However, the reductions can't be any larger than are necessary to remain solvent. The Goldilocks rule tries to strike a balance. The government does not want plans to reduce benefits unless the reductions are expected to protect the plans' solvency. On the other hand, reducing even a portion of people's pensions can have a huge impact on their lives, so the government rightfully wants to make sure plans only make reductions that are absolutely necessary. This means that there is a very specific allowance for reducing benefits, and the Fund must prove to Treasury that we are reducing them only by that amount.

The calculation of whether the Goldilocks rule is met is based on financial information for the calendar quarter before the MPRA application is filed. What that means is that we can't know the exact amount of the reductions until that time.

**How do the Trustees anticipate allocating the benefit reductions among participants?**

As a result of the Goldilocks rule, the Trustees do not have much discretion about the total amount of reductions, but they still have to decide how the reductions will be designed—that is, which benefits are going to be reduced and how.

MPRA provides rules that must be followed by all funds filing applications. First, MPRA includes some specific protections that limit benefit reductions for different categories of participants based on age, receipt of a disability pension from the Fund and amount of the benefit.

MPRA also says that benefit reductions have to be shared equitably. The law provides a list of equitable factors that can be considered by Trustees.

A final decision has not been made on every term of the benefit reduction. The Trustees' proposed reduction will protect the $1 benefit multiplier. The Trustees anticipate reducing the four other multipliers by the same flat percentage.

Since January 1, 2010, the benefit multiplier has been set at $1.00 for retirements at age 65, which is the Fund's normal retirement age. Under the anticipated benefit reduction, each of the higher multipliers—

those that were in place prior to January 1, 2010—will be reduced by the same percentage. The current age 65 multipliers are shown in the chart below— the proposed percentage reduction will apply to the $4.65, $3.50, $3.25 and $2.00 multipliers, as well as the associated multipliers for participants who have retired or will retire at earlier ages. The $1.00 age-65 multiplier will not be reduced, nor will its associated multipliers for retirement at earlier ages. However, benefit reductions must take into account MPRA's protections for age, disability and the maximum benefit reduction.

| **Current Benefit Multipliers by Benefit Period and Age at Pension Effective Date payable as a Single Life Benefit** | | | | | |
|---|---|---|---|---|---|
| **Age at Pension Effective Date** | **Contributions Earned Through December 31, 2003** | **Contributions Earned From January 1, 2004 Through March 31, 2007** | **Contributions Earned From April 1, 2007 Through April 30, 2009** | **Contributions Earned From May 1, 2009 Through December 31, 2009** | **Contributions Earned on and after January 1, 2010** |
| | **Benefit Period A** | **Benefit Period B** | **Benefit Period C** | **Benefit Period D** | **Benefit Period E** |
| 65 or older | $ 4.65 | $ 3.50 | $ 3.25 | $ 2.00 | $ 1.00 |
| 64 | $ 4.16 | $ 3.13 | $ 2.91 | $ 1.79 | $ 0.90 |
| 63 | $ 3.75 | $ 2.82 | $ 2.62 | $ 1.61 | $ 0.80 |
| 62 | $ 3.36 | $ 2.53 | $ 2.35 | $ 1.45 | $ 0.72 |
| 61 | $ 3.04 | $ 2.29 | $ 2.13 | $ 1.31 | $ 0.65 |
| 60 | $ 2.75 | $ 2.07 | $ 1.92 | $ 1.18 | $ 0.59 |
| 59 | $ 2.48 | $ 1.87 | $ 1.74 | $ 1.07 | $ 0.53 |
| 58 | $ 2.26 | $ 1.70 | $ 1.58 | $ 0.97 | $ 0.49 |
| 57 | $ 2.05 | $ 1.54 | $ 1.43 | $ 0.88 | $ 0.44 |
| 56 | $ 1.86 | $ 1.40 | $ 1.30 | $ 0.80 | $ 0.40 |
| 55 | $ 1.70 | $ 1.28 | $ 1.19 | $ 0.73 | $ 0.37 |

As part of the reduction, the Trustees also expect to propose eliminating some of the Fund's unique benefit features that were instituted when the Fund was in excellent financial condition and could afford them. Eliminating some of these features will allow the Trustees to limit the size of the percentage reduction.

For example, the Trustees anticipate eliminating the subsidized early retirement benefit that participants received if they retired before age 65 prior to June 1, 2010. These retirees did not have their benefits reduced by the full amount necessary to account for the fact that they are being paid for a longer period of time.

The Trustees also anticipate revising the way that "re-retirement" benefits are calculated. These are the additional benefits earned by a participant who retires before age 65 and then continues to earn benefits in the period before he or she reaches age 65.

The benefit reductions that result from eliminating these features must also take into account MPRA's protections for age, disability and the maximum benefit reduction.

The Trustees also anticipate including a maximum percentage benefit reduction, so that no participant can have his or her benefit reduced more than this maximum percentage.

MPRA requires that benefit reductions be based on the Fund's financial condition as of the end of the calendar quarter before the application is filed. Therefore, the Trustees do not—indeed, they cannot—yet know the precise dollar amount of the overall reduction that is needed to protect the Fund's solvency, nor

how much any reduction to any individual's pension will be. What we do know is this: Benefit reductions are much preferred to the Fund's running out of money (becoming insolvent).

**Are some participants protected from benefit reductions?**

MPRA includes some specific protections that limit benefit reductions for different categories of participants:

- Participants age 80 or older are fully protected, and their benefits cannot be reduced.
- Participants between 75 and 79 are partially protected, using a sliding scale based on age that increasingly limits benefit reductions the closer a participant is to age 80.
- Participants receiving a disability pension benefit from the Fund are fully protected and they, too, cannot have their benefits reduced.

Additionally, no participant's benefit can be reduced below 110% of what the Pension Benefit Guaranty Corporation (PBGC) is supposed to pay if the Fund ran out of money (assuming the PBGC itself has the money to do so). (*See the FAQ below for more information about the PBGC and its guarantee.*)

Taking all of this into consideration, the Fund's actuaries estimate that nearly 60% of our participants are completely protected from benefit reductions under MPRA. These participants will therefore see no change to their current pension checks or the amount they have earned thus far and expect to receive in the future.

**How do the age protections in the Multiemployer Pension Reform Act (MPRA) work for participants age 80 and older and for those ages 75-79?**

Participants are fully protected from benefit reductions under the Multiemployer Pension Reform Act (MPRA) if they are 80 years of age or older.

Participants receive partial protection from benefit reductions if they are between 75 and 79 years of age. These protections are calculated on a sliding scale based on age. The older a participant is, the less his or her benefits can be reduced.

Both of these MPRA protections are determined based on a participant's age on the last day of the month in which reductions become effective. For example, if MPRA benefit reductions are first made effective on January 1 of a year, then the protections are applied based on a participant's age on January 31 of that year.

These same MPRA age protections apply to beneficiaries receiving survivor benefits at the time that reductions are effective, based on the beneficiary's age on the last day of the month in which reductions are effective.

A beneficiary who is not yet receiving a benefit will receive a reduced benefit if the participant's benefit is reduced.

For example, if a participant is 80 at the time reductions are effective and his/her beneficiary is 74, then benefits for both the participant and the beneficiary are fully protected from benefit reductions (because the *participant* is age 80). If a participant is 74 and his/her beneficiary is 80, then benefits for neither the participant nor the beneficiary are protected from benefit reductions (because the *participant* is age 74).

**What is the PBGC? How much of my pension does it insure?**

The Pension Benefit Guaranty Corporation (PBGC) is a government agency that insures pension benefits up to the maximum amounts set by federal law. The Fund is under the PBGC's multiemployer program, which covers approximately 1,400 plans and about 11 million participants.

The PBGC's guarantee is based in part on the number of "years of service" a participant has earned in the Fund. For example, the maximum guarantee for a participant with 30 years of service is $12,870 per year. The maximum guarantee for a participant with 10 years of service is $4,290 per year. The other part of the guarantee is based on your accrual rate; not everyone is guaranteed these amounts if you have this many years of service. The PBGC's website contains more detailed information on how the maximum guarantees are calculated.

For the purpose of calculating your PBGC guarantee, "years of service" are your "years of vesting credit" under the Fund. AFM-EPF participants earn "years of service" based on covered earnings (which are wages on which pension contributions were made) in each calendar year, as follows:

| Covered Earnings in a Calendar Year | | Year of Vesting Service |
|---|---|---|
| At Least | Less Than | |
| $ 0.00 | $ 750.00 | 0 |
| $ 750.00 | $ 1,500.00 | 1/4 |
| $ 1,500.00 | $ 2,250.00 | 1/2 |
| $ 2,250.00 | $ 3,000.00 | 3/4 |
| $ 3,000.00 | N/A | 1 |

**What would happen if the Fund did run out of money (became insolvent)?**

In the event the Fund runs out of money (becomes insolvent), the federal insurer, the Pension Benefit Guaranty Corporation (PBGC), is supposed to provide funding for the Fund to continue paying benefits up to a certain amount.

There are no age or disability protections if the Fund becomes insolvent. This is another important reason for the Fund to avoid insolvency.

It's also important to note that the PBGC's multiemployer program is projected to become insolvent by 2025. If that happens, then there will be little to no PBGC guarantee to fall back on. In this scenario, if the Fund became insolvent, then all participants' benefits would be reduced to almost nothing.

That's why it's so important for us to ensure that the Fund avoids insolvency. While there is no doubt that benefit reductions for participants would be painful and difficult, they cannot be worse than the near-total reductions that would take place for all participants if the Fund and the PBGC both ran out of money.

**Are there any plans to lower the benefit multiplier for future service?**

The Trustees do not plan to lower the current $1.00 multiplier for future service.

Additionally, in planning benefit reductions under the Multiemployer Pension Reform Act, the Trustees do not anticipate reducing benefits that have already been earned under the $1.00 multiplier.