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 29, 2020

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

The Annual Funding Notice shows the Plan was 59.2% funded as of April 1, 2019 (the Funding Notice shows the funded percentage as of the *beginning* of the Plan year that just ended). Audited financials are not yet available for the Plan year beginning April 1, 2019, but the downward trend in funded status will continue and the estimated funded percentage as of April 1, 2020 is 55%.

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. After the Plan entered critical and declining status, the Trustees faced two difficult choices: Do nothing or try to save the Plan. That simple, painful reality remains the same today. As you can see in the Annual Funding Notice, the Plan's funded percentage continues to decline with each passing year. The Plan is currently projected to run out of money in the Plan year ending March 31, 2035.

In January 2020, we informed participants 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 newsletter, the application is still in review with Treasury. If approved, the benefit reductions will be effective January 1, 2021.

These are very difficult times for musicians across the country. We understand that a reduction in pension benefits will only add to this hardship for many of our participants. As Trustees, we had to pursue this last available option to prevent much greater hardship in the future. Our responsibility is to take whatever action is necessary to preserve our Pension Plan – for all of our active participants, retirees and beneficiaries – now and in the future.

The impact of COVID-19 on the Plan – it's too early to tell

The financial health of the Plan relies in large part on investment returns. Thus, it was very hard to watch the market swing so dramatically during the first half of this calendar year – especially the difficult first quarter. Things have improved somewhat since then but not fully. The cancellation of live work also reduced employer contributions, on which the Plan's health also depends.

No one knows what will happen in the months and years ahead. If the financial markets continue to recover and live performances resume, the long-term impact of the pandemic may not be as significant. On the other hand, if the market downturn does not improve or if live work cannot resume because the virus continues to spike, it would pose a challenge to the Plan's ability to remain solvent as projected in the application.

Obviously, we can't predict the future. What we can do is make use of the best information available and continue on our present course of action to try to preserve our Pension Plan.

If the MPRA application isn't approved, benefit reductions will be greater in the future

If we do not reduce benefits, benefit payments will increasingly outpace employer contributions — until the Plan's assets are completely drained. The federal government insurer, the Pension Benefit Guaranty Corporation (PBGC), is supposed to provide funding to keep paying benefits up to a certain limit. But, the PBGC is itself currently projected to become insolvent in 2025. If both our Plan and the PBGC become insolvent, then participants' benefits will be reduced dramatically.

MPRA includes protections that limit benefit reductions for different categories of participants based on age, receipt of a disability pension from the Plan and amount of the benefit. If the Plan becomes insolvent, those protections don't apply.

If this MPRA application isn't approved, it may be possible to submit a new application. However, time is not on our side. The trends will continue — the Plan's assets will shrink, and the benefit liabilities will grow. Thus, benefit reductions in a new application would have to be even larger.

The proposed benefit reduction "levels the playing field" and preserves the Plan's core promise

From the outset of this process, the Trustees recognized that some participants have already experienced enormous benefit reductions over the past 16 years as the multiplier was lowered from $4.65 to the $1.00 multiplier that has been in place since January 1, 2010. Participants currently earning benefits under the $1.00 multiplier also do not have access to certain subsidies that were made available to other participants who retired previously.

The Trustees decided that these fair and equitable principles would be used to guide the design of the reductions:

- Leveling the playing field by reducing costly benefits and features of the Plan that are richer than the Regular Pension Benefit payable at age 65,
- Preserving the Plan's core promise of the $1.00 age-65 multiplier, and
- Minimizing reductions to the other benefit multipliers as much as possible.

The first step in the plan was to remove generous benefit features that were instituted when the AFM-EPF was in excellent financial condition and could afford them. Most notable is the removal of the early retirement subsidy, which was available to participants who retired early (before age 65) before June 1, 2010. This subsidy allowed these participants to receive a much richer benefit for the contributions they earned before 2004 than those participants who retired after June 1, 2010. This step also included changes to Re-retirement and Re-determination benefits, which can be earned after a participant starts receiving a pension and which are quite rare among multiemployer pension plans.

The Trustees concluded that the fairest way to design the proposed reduction plan was to protect the $1.00 multiplier from any reduction. This is because the benefits for current active participants have already been reduced to the $1.00 multiplier, which is about an 80% reduction from its $4.65 peak, and further reduction seemed particularly unfair. Preserving the $1.00 multiplier is also important to maintain support for the Plan from active participants, who are already seeing a significant portion of contributions from their current work go toward funding benefits that were earned in the past.

The Trustees know that the $1.00 multiplier, which has been in effect since 2010, is not a rich benefit. However, it can provide a meaningful benefit payable over a lifetime starting at age 65. The Trustees also know that further reductions to this already-reduced amount would jeopardize not only ongoing contributions, but also increases to contributions, which are critically important to the Plan. Eliminating the subsidies and the costly features helped the Trustees to maintain this benefit.

After eliminating the subsidies and generous features, the central element of the proposed reductions is a flat 15.5% reduction to all multipliers other than the $1.00 multiplier. Each of the higher, pre-2010 multipliers would be reduced by 15.5%, although various statutory protections apply to different participants. This means either no reductions for some participants, or reductions for many that amounted to less than 15.5% in total. In addition, the Trustees felt it was only fair to limit the overall size of the cuts for any one person, and they chose 40% as the maximum cut any participant or beneficiary could face.

What happens next?

August 2020 | **September 2020** | **October 2020** | **November 2020** | **December 2020** | **January 2021**

August 11: last day for Treasury to complete review of MPRA application; approve or deny it

Participant vote begins within 30 days of approval; voting period lasts at least 21 days

Treasury announces outcome of participant vote within 7 days of voting deadline

January 1: benefit reductions go into effect

How the Voting Process Works

Treasury administers the voting process. If the Plan's MPRA application is approved, Treasury will mail ballots and voting instructions to Plan participants and beneficiaries of deceased participants within 30 days of the approval. Your vote to approve or reject the proposed benefit reductions can be cast by telephone, online or by mailing the paper ballot back to Treasury. The deadline to vote will be listed in the voting packet (Treasury must select a deadline at least 21 days after the date that ballots are mailed to voters).

Treasury must announce the outcome of the vote within seven days of the end of the voting period. For a plan of benefit reductions to be voted down, a majority of eligible voters must vote against it. So, under the law, unreturned ballots are effectively counted as votes to approve the benefit reductions.

Treasury will post the results of the vote on its website, including the number of people who voted in favor of the reductions, the number who voted against them and the number of unreturned ballots.

If the participant vote approves our MPRA application, Treasury will give final authorization for the Plan to implement the benefit reductions. Benefit reductions will be effective January 1, 2021. Until then, 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.

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 approaches to address the nationwide multiemployer pension crisis, including the funding issues facing our Plan and about 115 others that are projected to become insolvent in the coming years.

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 our 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 multiemployer pension plans.

However, neither proposal is likely to pass Congress in its current form, which means that 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.

Visit the Plan website at **www.AFM-EPF.org/Congress.aspx** for the latest information on the status of legislation and how you can make your voice heard by Members of Congress.

It is important that you cast your vote on the plan for benefit reductions!

We all have a stake in ensuring that the benefit reductions are approved and implemented, as painful as they would be. If the Trustees were to submit a new MPRA application, the total size of the proposed benefit reduction would have to be even larger. And, if our Plan runs out of money in the future, the participants' benefits will be reduced dramatically – much more in many cases than under the current proposed reduction. This includes participants who would have little or no reduction under our MPRA application – MPRA's protections do not apply during insolvency.

Stay informed

We will continue to keep you updated throughout the MPRA process.

- Visit the Plan website at **www.AFM-EPF.org** and review the Frequently Asked Questions and other resources available under the “Stay Informed” menu for the most up-to-date information.
- Register on the Plan website to receive the *Pension Fund Notes* email newsletter, which contains the latest news and information from the Plan, as well as detailed explanations of different aspects of the proposed benefit reductions. An archive of past issues is available on the website.

The Fund Office has implemented remote operations in response to the COVID-19 pandemic. The most efficient way to contact the Fund Office with questions at this time is by e-mail through the “Contact Us” link on the Plan website at **www.AFM-EPF.org**.