What You Need to Know About the
Pension Benefit Guaranty Corporation (PBGC)

As announced earlier this year, the AFM-EPF Trustees and the Plan's advisors are preparing an application to the U.S. Treasury Department to reduce benefits under the Multiemployer Pension Reform Act (MPRA). These benefit reductions are necessary to prevent the AFM-EPF from running out of money to pay benefits in the future. By putting the Plan on stronger financial footing, we are taking the steps necessary for the Plan to be around to pay benefits to current and future retirees for decades to come.

Throughout this process, you will hear the PBGC mentioned again and again. In this issue of *Pension Fund Notes*, we'll take a step back to explain what the PBGC is, how it works and why it's important.

The PBGC "Insures" Pension Benefits

The PBGC is a government insurance agency that provides financial assistance to plans that no longer have enough money to pay benefits on their own. The PBGC receives no taxpayer funding. Instead, pension plans pay annual premiums to the PBGC. For multiemployer plans like ours, annual premiums are based on a flat rate per number of participants in the plan. For 2020, multiemployer plan premiums will be $30 per plan participant, increased from $8 per plan participant in 2007. The Plan's required PBGC premiums increased from approximately $400,000 to $1,450,000 in just 12 years (from 2007 to 2019) due to the enormous increases in the per-participant annual premium.

However, the PBGC does not necessarily "cover" your full benefit amount. It only insures and pays benefits up to a maximum amount set by federal law, which is known as the PBGC "guarantee."

How Much of My Benefit Does the PBGC Cover?

The PBGC guaranteed benefit is calculated in an entirely different way than your benefit is calculated under the AFM-EPF. In a nutshell, the highest PBGC-guaranteed monthly benefit available is $35.75 per year of "pension credit," which for this Plan is the same as years of "vesting service." If you have accrued partial years of vesting service under this Plan, the PBGC will take those into account when calculating your guaranteed benefit.

The PBGC calculates each participant's guarantee by determining the average monthly benefit you earned (your total monthly benefit divided by your years of pension credit/vesting service); then it guarantees 100% of the first $11 of that monthly average plus 75% of the next $33, but not more than $35.75 per month. The result is then multiplied by your years of pension credit/vesting service to calculate your PBGC guaranteed monthly benefit.

For example:

- Let's say your monthly benefit is $600.00 and you have 20 years of vesting service. Your average monthly benefit earned is $30.00 ($600.00 ÷ 20). The PBGC will cover $25.25 per year of vesting service ($11 + (.75 x $19)). Therefore, your PBGC guaranteed monthly benefit would be $505.00 ($25.25 x 20).

- If your monthly benefit is $200.00 and you have 20 years of vesting service, your average monthly benefit earned is $10.00 ($200.00 ÷ 20). The PBGC will cover the entire $10.00 per year of vesting service because the PBGC guarantees 100% of your average monthly benefit up to $11.00 per year. Therefore, the PBGC would guarantee all of your $200 monthly benefit ($10.00 x 20).

- If your monthly benefit is $2,400.00 and you have 40 years of vesting service, your average monthly benefit earned is $60.00. The maximum the PBGC will pay is $35.75 per year of vesting service. Therefore, your PBGC guaranteed monthly benefit would be $1,430.00 ($35.75 x 40).

The **PBGC's website** has more information on how guarantees are calculated.

What Does All This Mean for My Benefit and the MPRA Process?

The PBGC affects the proposed MPRA benefit reduction in two important ways.

First, the amount of your benefit:

- If the Plan runs out of money and goes to the PBGC, the most you could expect to receive is your PBGC guaranteed benefit (as described above). Additionally, the PBGC guarantee does not factor in any of MPRA's special protections that limit benefit reductions for participants based on age and whether they are receiving a disability benefit.

- If we reduce benefits ourselves using MPRA, no participant's benefit can be reduced below 110% of his or her PBGC guarantee. If your benefit is reduced under our proposed MPRA plan, it will still be higher than the amount you would get if the Plan became insolvent and the PBGC stepped in.

Second, the PBGC itself is in financial trouble:

- Absent a change in the law, the PBGC currently projects its multiemployer insurance program will become insolvent by the end of its 2025 fiscal year. If this happens, the PBGC will only be able to pay out what it collects in premiums.

- The PBGC projects that approximately 125 additional plans will run out of money over the next 20 years. Whatever money the PBGC has to fund benefits will have to be spread among more and more insolvent plans. Therefore, if the AFM-EPF runs out of money, participants' benefits could be much less than even the current PBGC guaranteed amount.

The decision to apply for benefit reductions under MPRA was painful, but it is essential that we do everything possible to put the AFM-EPF on stronger financial footing. We want to be able to pay benefits to current and future participants for many years to come, and not have to rely on whatever help—likely very little—that the PBGC may be able to provide.

Participants can find answers to questions about the PBGC and a variety of other topics on ***the FAQ page of the Plan website***.

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