Pension Fund Notes

Newsletter of the American Federation of Musicians and Employers' Pension Fund

AFM-EPF Enters "Critical and Declining" Status

Trustees Will Apply to Treasury Department to Reduce Benefits Under Multiemployer Pension Reform Act (MPRA)

At this week's Board of Trustees meeting, our actuaries advised that the AFM-EPF is entering "critical and declining" status, which means the Fund is projected to run out of money to pay benefits within 20 years. We are in this position because of the combination of investment losses during the Great Recession and rising benefit payments that increasingly exceed contributions.

What can be done to protect our participants' pensions?

There is no practical way that investment returns and contribution increases alone will be able to close the long-term, worsening gap between the money coming in and going out.

That leaves the Trustees with two challenging options – either to allow the Fund to run out of money and become insolvent or to apply to the U.S. Department of the Treasury for approval to reduce benefits under MPRA by an amount sufficient to prevent insolvency. 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.

To be clear, benefit reductions are not happening immediately. Throughout the MPRA application process, benefits will continue to be paid each month with no change in the amount, and you can continue to earn new benefits under the Fund through covered employment.

The Trustees are also continuing to actively push for legislation from Congress that will provide assistance to our Fund and the more than 120 other multiemployer pension funds across the nation covering 1.3 million participants now facing the prospect of insolvency, but we cannot wait 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.

What happens next?

The Trustees and the Fund's expert advisors will begin preparing a MPRA application to submit to the U.S. Department of the Treasury. Due to the complexity and requirements of the process, our application will likely not be filed until 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.

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 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 individual reduction will be.

A final decision has not been made on every term of the benefit reduction. However, the Trustees' proposed reduction will protect the $1 benefit multiplier. The Trustees anticipate reducing the other 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 are also considering the inclusion of 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 benefits and whether they are receiving a disability benefit from the Fund.

For example, participants who are at least 80 years old or receiving a disability pension cannot have any reduction to their benefit. Those who are between 75 and 80 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 as a starting point, individual participants may be affected by the limits described above in different ways. FAQs about these and other topics, including an explanation of how the multiplier works, can be found **on the Fund's FAQ page**.

How can I stay informed?

We will continue to keep participants updated throughout the MPRA process. Please look for further communications to be sent via email and postal mail.

In addition, the independent Retiree Representative will be communicating with retired and "deferred vested" participants (inactive participants entitled to benefits who have not begun collecting a pension yet). Information about the Retiree Representative is available on his website at **www.afmretireerep.org**.

More detailed information about these and other topics is available **on the FAQ page of the AFM-EPF website**, including:

1. How much will participants' benefits be reduced?
2. How do the Trustees anticipate allocating benefit reductions among participants?
3. Are some participants protected from benefit reductions?
4. What would happen if the Fund did run out of money (became insolvent)?
5. What is the PBGC? How much of my pension does it insure?

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