Exhausting "All Reasonable Measures" Before Using MPRA

A closer look at employer contributions

Under the Multiemployer Pension Reform Act (MPRA), the Plan Trustees must demonstrate to the U.S. Treasury Department that they have exhausted "all reasonable measures" to avoid insolvency before applying to reduce benefits. That's because MPRA is intended to be used only as a last resort - and rightly so. No pension plan should ever consider reducing earned benefits unless there are no other reasonable options left.

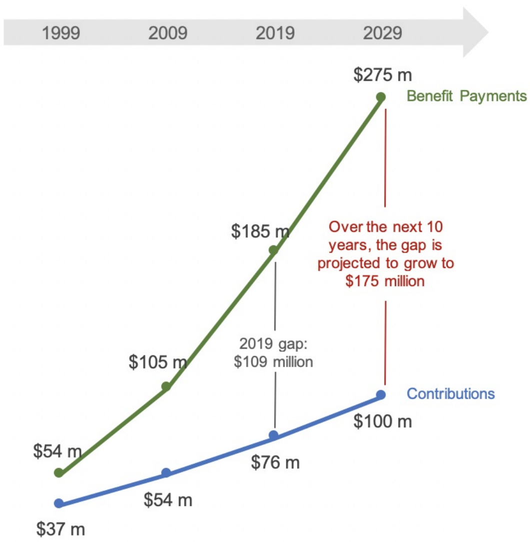
In preparing the Plan's MPRA application, the Trustees revisited whether they had taken all reasonable measures or whether further steps should be taken before the application was filed. One of the key questions was, "Could contributions have been increased even more?"

The amount of the contribution increases that would be needed to keep pace with benefit payments simply isn't realistic

Unfortunately, benefit payments have been increasing so fast that there has been no reasonable way for contributions to keep up.

Contributions have been rising steadily - 3.5% per year for the last 10 years and 4.5% per year for the last five years. That's significantly faster than inflation.

However, benefit payments have grown even faster. For the fiscal year ending in March 2019, the gap between annual contributions and benefit payments reached $109 million. What's more, benefit payments are projected to grow at an increasing rate in the coming years.



Contributions have risen steadily in recent years, but the gap is large and growing

This is not a recent development. Benefit payments outpaced contributions for decades and the Trustees have responded with the tools that were available to them under the law at different points in time.

Even so, our actuaries have 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 fully funded 30 years from now - this is not realistic.

Trustees have increased contributions 19.9% across the board

The only direct control the Trustees have over contributions is through the "rehabilitation plan," which allows

Trustees to mandate contribution increases for future collective bargaining agreements. This tool only became available under law when, after the 2008-2009 global financial crisis, our Pension Plan entered "critical" status in 2010.

The Trustees approved contribution increases in 2010 and 2018, which together totaled a 19.9% increase. In designing these increases, the Trustees devoted a significant amount of time and attention to considering the advantages and disadvantages of higher increases to employer contribution rates. The Trustees recognized the reality that any additional across-the-board increases would pose far too great a risk that active participants would encourage their local officers and employers to withdraw from the Plan.

But, the Trustees' power to affect contributions is limited
Generally, employer contributions are established in collective bargaining agreements that are negotiated by AFM locals or the AFM.

- *Thousands of locally negotiated agreements* - Our Plan's contributions are determined by more than 3,700 collective bargaining agreements with more than 5,500 employers. 84% of benefit-bearing contributions come from individual employer contracts that are negotiated at the local level, whereas only 16% come from national AFM contracts.

- *Pension contributions compete with other important issues* - When the AFM, local officers or local player committees sit down at the bargaining table with employers, it is to negotiate a whole host of issues, including pension contributions, wages and health benefits, but these are only some of the weightiest issues with financial impact. Rank-and-file musicians, negotiating committees and local officers - as well as employers - know that a dollar put into any one of these buckets often means one less dollar to put in the others. And, negotiators on both sides of the table have to deal with workplace issues and other "non-pocketbook" items that can affect the employers' bottom line and musicians' experience on the job. Our active participants are reluctant to give up increases in wages and other benefits for increased pension contributions, particularly given the $1.00 pension benefit multiplier.

Symphony orchestras are a good example. About 40% of benefit-bearing contributions come from non-profit symphony employers, and all of these contracts are negotiated at the local level. Few player committees have been willing to defer additional wages in favor of pension contributions, especially as they've sought to restore reduced wages from previous concessionary contracts that were agreed to following the 2002-2003 dot-com bubble burst and again in the aftermath of the 2008-2009 global financial crisis.

AFM has increased contributions in national agreements
Although additional across-the-board increases in a rehabilitation plan would risk being counterproductive, there are other opportunities to increase contributions on a contract-by-contract basis.

For example, when it comes to national agreements (e.g., film, TV, sound recording), the AFM has made increasing pension contributions a number-one priority where possible. This includes new sources of "unallocated" contributions, such as those associated with digital streaming. Unlike benefit-bearing contributions, unallocated contributions are dedicated to Plan funding only - they do not increase the Plan's benefit liability. In 2010, unallocated contributions made up less than 1% of all employer contributions to the Plan. Thanks to the AFM's negotiating work, that share has risen substantially to more than 10% and it is growing each year.

Contribution increases helped to minimize the level of proposed benefit reductions
Every effort has been made to increase contributions, and each of these efforts has helped to minimize the benefit reductions proposed in the MPRA application. Our MPRA application assumes that our contributions will continue to increase as a result of these efforts and that such efforts will continue in the future.

Learn more
The Plan's MPRA application contains detailed information about the efforts taken to prevent insolvency and the basis for the Plan's contribution assumptions. You can find this information by **clicking here** to access the application and then review checklist items 18 through 20 (pages 41 to 56) and Exhibit 6.03 (pages 324 to 336).

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*If you have questions about the proposed benefit reductions, call the Benefits Service Center at 800-725-4478. Specially-trained representatives are available to answer your questions Monday - Friday, 8:00 a.m. - 8:00 p.m. ET. For requests and information other than about MPRA benefit reductions, you can submit your question using **the -Contact Us' form on the Plan website**.*

*Participants can submit public comments on the MPRA application to the U.S. Treasury Department through March 2, 2020. **Click here** to submit your own public comment.*

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