June 22, 2018

IMPORTANT INFORMATION REGARDING YOUR PLAN CONTRIBUTIONS – PLEASE READ CAREFULLY

Dear Employer:

Please find enclosed the June 2018 Update to the Rehabilitation Plan for the American Federation of Musicians and Employers’ Pension Plan (the “Fund”). As described more fully in the enclosed, the Update requires that contribution rates to the Fund be 10% higher in your next collective bargaining agreement. The purpose of this cover letter is to provide you with some context for this required increase.

As you may know, the Fund has been in “critical” status since April 1, 2010. Critical status means that, while the Fund can pay benefits for the next 20 years, our funding status is sufficiently low that the law requires a rehabilitation plan (which the Fund has had in place since 2010) aimed at improving the Fund’s funding status or forestalling insolvency. You will receive the Fund’s Annual Funding Notice and Notice of Critical Status in July, which will contain further details about the Fund’s funding status.

However, our actuaries, who certify the Fund’s status once each fiscal year, have advised us that we are expected to be in “critical and declining” status at some point in the future. If the Fund were in critical and declining status, it would mean that the Fund was projected to run out of money, that is, become insolvent, within the following 20 years.

The Trustees view insolvency as an unacceptable result for participants and employers alike. Accordingly, we are taking steps aimed at protecting the long-term solvency of the Fund. This 10% contribution rate increase is one piece of an overall plan to do just that. We are also taking other steps. For example:

- In an attempt to enhance our net investment returns relative to market risk, we have transitioned to an outsourced chief investment officer (or OCIO) model of investing, hiring the respected firm of Cambridge Associates to oversee day-to-day decisions for the Fund’s investment portfolio, including the selection of asset managers. This new model is expected to provide the Fund with access to best-in-class managers and allow it to adapt to the rapidly changing markets and the growing complexity of investment decisions and products in the market.
• If the Fund is in critical and declining status, the Multiemployer Pension Reform Act of 2014 (“MPRA”) would allow the Fund to apply to the Department of the Treasury to reduce participants’ already earned benefits (with certain limitations) in the amount necessary to avoid insolvency. While we cannot reduce earned benefits until we are in critical and declining status, the Trustees have been working with the Fund’s actuaries to prepare for that eventuality by analyzing different ways that equitable benefit reductions could be implemented.

• The Trustees are also actively engaging with Congress’s Joint Select Committee on the Solvency of Multiemployer Pension Plans to impress upon the members of the Committee the urgency of developing a legislative alternative to MPRA reductions that would protect the Fund.

If you want more information regarding the status of the Fund, please visit our website, www.afm-epf.org, and go to the “Stay Informed” menu. Under that menu, you can click “State of the Fund” (or go to www.afm-epf.org/StayInformed/StateoftheFund.aspx) for a detailed narrative explaining the state of the Fund, including how the Fund got into this position, what steps have been taken over the years, why those steps did not resolve the Fund’s issues, how the Fund is controlling expenses, and what is expected in the future. There are also links to frequently asked questions regarding many of these issues.

You can also see more information about the Fund’s legislative efforts here (http://www.afm-epf.org/congress.aspx). This webpage was established to help participants learn about the Joint Select Committee and engage with Congress. We likewise encourage employers to review the information and tools on this webpage and reach out to their own Members of Congress and the Joint Select Committee by letter, email or phone.

For a copy of the Rehabilitation Plan prior to this Update, you can go to this link (www.afm-epf.org/PlanDocuments/RehabilitationPlan.aspx).

If you have questions regarding the enclosed Update, please contact the Fund Office at 1-800-833-8065 (extension 1311), by e-mail through the “Contact Us” link on our website (www.afm-epf.org) or by mail.

Sincerely,

Board of Trustees

Cc: AFM and AFM Locals