MEMORANDUM

To: All Employers Contributing to the American Federation of Musicians and Employers’ Pension Fund (“AFM-EPF”)  
All Local Unions Representing Participants in the AFM-EPF

From: Board of Trustees of the AFM-EPF

Date: December 30, 2009

The purpose of this memo is to advise you of two important developments. **A copy of this letter should be provided immediately to your organization’s senior financial officer and senior individual responsible for collective bargaining.**

First, as described in greater detail below, the Board of Trustees of the AFM-EPF (the “Board”) has adopted special rules that will limit the ability of the bargaining parties to reduce a contributing employer’s contribution rate below the existing rates. Second, the Board wishes to advise the bargaining parties of the existence of potential withdrawal liability for employers that withdraw from the AFM-EPF in the current plan year (April 1, 2009 through March 31, 2010) and to remind employers of the procedures that the AFM-EPF uses in assessing withdrawal liability. The remainder of this memo provides further detail regarding these changes.

1. **Limitations on Reductions in Contributions**

As you may be aware, the Agreement and Declaration of Trust that governs the operation of the AFM-EPF (the “Trust Agreement”) defines the terms “collective bargaining agreement” and “employer” to include only those agreements and employers, respectively, that are acceptable to the Board in accordance with procedures it establishes. Thus, for example, AFM-EPF’s procedures for acceptability of collective bargaining agreements state that such an agreement is not acceptable (without specific Board approval) if the contribution rate is less than 4% or more than 15% of scale wages.

The procedures have now been amended to provide that an employer and a collective bargaining agreement are not acceptable to the Board in the event that:

(i) in the case of a collective bargaining agreement the terms of which were in effect (by agreement or operation of law) on October 15, 2009, the effective contribution rate applicable to any period of that collective bargaining agreement is reduced (by agreement or otherwise on or after October 16, 2009); or
(ii) in the case of any future extension of or successor to any collective bargaining agreement the terms of which were in effect (by agreement or operation of law) on October 15, 2009, the effective contribution rate is reduced to a rate that is lower than the effective contribution rate in effect on the last day of the expiring collective bargaining agreement (based on the terms of the collective bargaining agreement as they existed on October 15, 2009).

Since this language is somewhat complicated, please consider the following examples of changes to a collective bargaining agreement that involve a change in pension contributions. Each of the examples concerns a collective bargaining agreement effective January 1, 2008 through December 31, 2009 that includes a pension contribution in the amount of 10% of scale wages (except as described in Example 7).

**Example 1:** The agreement is amended after October 15, 2009 and effective November 1, 2009 to reduce the contribution rate from 10% to 9% of scale wages. This amendment is not acceptable because it reduces the contribution rate.

**Example 2:** The agreement is amended after October 15, 2009 and effective November 1, 2009 to reduce the contribution rate from 10% to 9%, and to increase scale wages 5%. Even though pension contributions will be increased overall, the agreement is not acceptable because it reduces the contribution rate.

**Example 3:** The agreement is amended after October 15, 2009 and effective November 1, 2009 to reduce wages 5%, but the contribution rate remains at 10%. Even though pension contributions will be reduced overall, the amendment is acceptable because it does not reduce the contribution rate.

**Example 4:** The agreement is amended after October 15, 2009 and effective November 1, 2009 to provide that the 10% rate does not apply to scale wages in excess of $20,000. The agreement is not acceptable because it effectively reduces the contribution rate for employees making more than $20,000.

**Example 5:** A new collective bargaining agreement is negotiated in December 2009, effective January 1, 2010, which includes a reduction in the contribution rate from 10% to 9%. The agreement is not acceptable because it reduces the contribution rate.

**Example 6:** A new collective bargaining agreement is negotiated in December 2009, effective January 1, 2010, which retains the 10% contribution rate for one classification of musicians but eliminates contributions for another classification of musicians. The agreement is not acceptable because it reduces the contribution rate for a group of musicians.

**Example 7:** The collective bargaining agreement in effect from January 1, 2009 through December 31, 2010 provides, as of October 15, 2009, for a contribution rate of 11% in 2009 and 10% in 2010. A new collective bargaining agreement is negotiated in December 2010, effective January 1, 2011, which retains the 10% contribution rate. The agreement is acceptable because it does not reduce the contribution rate in effect at the expiration of the previous collective bargaining agreement (and that contribution rate was provided for under the collective bargaining agreement as of October 15, 2009).
Please remember that if an amendment results in an agreement that is not acceptable, and the employer or collective bargaining agreement is therefore rejected by the Board, this may result in the AFM-EPF assessing withdrawal liability against the employer.

A copy of the full Board resolution adopting this change (which also includes a prospective reduction in the benefit accrual rate for participants) can be found on the AFM-EPF website at http://www.afm-epf.org/docs/10-15-09resolution.pdf.

2. **Withdrawal Liability**

Under the terms of applicable law, each contributing employer that experiences a complete or partial withdrawal (within the meaning of the law) from the AFM-EPF is required to pay all amounts due as withdrawal liability. Put simply, withdrawal liability represents a withdrawing employer’s share of the unfunded vested benefit liability (“UVB”) of the AFM-EPF. In the past, the AFM-EPF has had no UVB and, accordingly, no withdrawal liability for withdrawing employers.

However, the AFM-EPF actuaries have advised that, for the first time, there is withdrawal liability for contributing employers that withdraw from the Fund during the plan year from April 1, 2009 through March 31, 2010. (The calculation of UVB is done on an annual basis and the absence, presence or amount of withdrawal liability for any particular plan year cannot be taken as assurance as to the absence, presence or amount in any other plan year.)

Please note that the Trust Agreement provides that the Board has full authority to adopt rules and regulations governing the determination and payment of withdrawal liability (consistent with the law) and that those rules and regulations adopted by the Board are binding on all contributing employers. You should have previously received a description of the rules and regulations adopted by the Board, but if you require another copy, please consult the AFM-EPF website at http://afm-epf.org/docs/withdrawalliabilityprocedures10-26-09.pdf (or contact the Fund office). This description also contains information as to the procedure for an employer to request an estimate of its potential withdrawal liability.

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Feel free to contact the Fund Office Customer Service Department at 1-800-833-8065 ext. 1311 if you have any questions regarding this matter.
RESOLUTION OF THE BOARD OF TRUSTEES

WHEREAS, the Trustees are committed to maintaining the Fund's long-term viability so that it may continue to provide retirement benefits to participants and beneficiaries for many years to come; and

WHEREAS, Congress enacted the Pension Protection Act of 2006 ("PPA") to ensure that pension plans are funded sufficiently to provide all of the promised benefits; and

WHEREAS, over the past two years the U.S. economy has experienced the worst financial downturn since the Great Depression, resulting in unprecedented losses for virtually all multiemployer funds, including this Fund; and

WHEREAS, as a result, the Fund's actuaries have advised that the Fund has a long-term funding deficiency and a declining funded percentage, and recommend that the benefit multiplier be reduced to $1.00 as soon as such decrease can be effectuated; and

WHEREAS, the Fund is expected to enter "critical" status under the PPA effective April 1, 2010, even if the recent rebound of the markets continues through the end of the current plan year (March 31, 2010); and

WHEREAS, a plan that is in critical status is required under the PPA to develop and submit to the Internal Revenue Service a rehabilitation plan that would allow the plan to emerge from critical status in 10 years, if possible; and

WHEREAS, the Trustees acknowledge that the Fund's rehabilitation plan is likely to require a reduction in the benefit multiplier to $1.00; and
WHEREAS, the PPA also prohibits employers from reducing contribution rates once a plan enters critical status; and

WHEREAS, the Fund's actuaries have advised that reductions in future employer contributions before the Fund enters critical status will exacerbate the Fund's financial condition; and

WHEREAS, the Trustees recognize that it would be imprudent to wait to implement measures that will be inevitable under the PPA and that would help restore the Fund to a more sound funded status so that it can continue to provide all benefits earned; and

WHEREAS, the Trustees had previously reached a deadlock in March 2009 on a motion to reduce the benefit multiplier to $1.00 and had scheduled an arbitration hearing to resolve that deadlock; and

WHEREAS, the Trustees wish to avoid imposing the expense and burden of such arbitration on the Fund; and

WHEREAS, the Trustees recognize that reducing the multiplier to $1.00 will cause hardship to participants because future pensions will be significantly reduced if this multiplier remains in place for a long period of time, and are committed to restoring the multiplier as soon as the Fund's financial condition permits them to do so;

NOW, THEREFORE, the Trustees of the Fund agree as follows:

1. The benefit multiplier for future benefit accruals will be reduced from $2.00 to $1.00 effective January 1, 2010.
2. The procedures adopted by the Board regarding the acceptability of employers and collective bargaining agreements shall be revised to provide that an employer and a collective bargaining agreement is not acceptable to the Board in the event that: (i) in the case of a collective bargaining agreement the terms of which were in effect (by agreement or operation of law) on October 15, 2009, the effective contribution rate applicable to any period of that collective bargaining agreement is reduced (by agreement or otherwise on or after October 16, 2009); or (ii) in the case of any future extension of or successor to any collective bargaining agreement the terms of which were in effect (by agreement or operation of law) on October 15, 2009, the effective contribution rate is reduced to a rate that is lower than the effective contribution rate in effect on the last day of the expiring collective bargaining agreement (based on the terms of the collective bargaining agreement as they existed on October 15, 2009).

3. Immediately following execution of this Resolution, the Employer Trustees will withdraw their demand for arbitration of the former deadlock regarding the benefit multiplier.

4. The Fund office shall be directed to issue 204(h) notices and any other required notices to effectuate this Resolution.

5. The Trustees will regularly re-evaluate the condition of the Fund and will consider raising the benefit multiplier as soon as it is possible and prudent to do so.

IN WITNESS WHEREOF, the Board of Trustees has adopted this resolution on the 15th day of October 2009.