



March 1, 2010

BOARD OF TRUSTEES DECIDES ON ELEMENTS OF AN EXPECTED REHABILITATION PLAN

The Pension Protection Act of 2006 requires the funding “zone status” for defined benefit multiemployer plans like the American Federation of Musicians and Employers’ Pension Fund (the “Plan”) to be certified each year by the plan’s actuary. The actuary for this Plan has advised the Plan’s Board of Trustees (the “Board”) that it expects to certify the Plan to be in “critical status” (also known as the “red zone”) for the Plan Year beginning April 1, 2010.

There are various tests to determine whether a plan enters critical status. This Plan is expected to enter critical status because it is projected to have an “accumulated funding deficiency” within the next four to five years. An accumulated funding deficiency occurs for any year that the amounts required to be charged against a plan’s “bookkeeping account” (mainly the cost of benefits earned during the current year and a portion of unfunded benefits earned during prior years, along with a portion of investment losses for the current and prior years) exceed the amounts required to be credited to that account (mainly employer contributions and a portion of the investment gains for the current and prior years).

Entering critical status does not mean that a plan is insolvent or even close to insolvent. The Plan’s actuary projects that the Plan will not become insolvent over the next 40 years, which is the longest period over which the actuary has made projections. Accordingly, the Plan expects to be able to pay all benefits that become due over this 40-year projection period.

Rather, the significance of entering critical status is that a plan’s board of trustees must adopt a “rehabilitation plan” designed to improve the plan’s financial health and to allow it to emerge from critical status, and submit the rehabilitation plan to the Internal Revenue Service.

The Board, at its February 24, 2010 meeting, made some important decisions about the elements of the rehabilitation plan that it expects to be required to establish once the Plan is certified to be in critical status. The purpose of this notice is to provide participants and employers with a general explanation of the elements of the anticipated rehabilitation plan.

Specifically, when the rehabilitation plan is created shortly after April 1, 2010, it is expected to include the following elements, as required by law:

Benefit Changes

It is expected that the following changes to the Plan will apply to all pension benefit payments with an annuity starting date on or after June 1, 2010, except as described in the box below. Please note that all benefits that become payable to participants whose initial application for benefits is postmarked (or otherwise received in the Fund Office) on or after February 25, 2010 will have an annuity starting date no earlier than June 1, 2010 and will be paid in accordance with the changes described below.

NO CHANGES ARE BEING MADE TO ANY BENEFITS THAT ARE CURRENTLY BEING PAID.

Benefits payable to participants whose initial application for benefits was postmarked (or received in the Fund Office, in the case of applications delivered by fax or by hand) on or before February 24, 2010 will be paid in accordance with the current terms of the Plan and not in accordance with the changes described below so long as the annuity starting date for that benefit is on or before June 1, 2010.

1. All benefits will be based on the following dollar amount per \$100 of contributions (rounded to the nearest \$100):

Age at Annuity Starting Date	Benefits earned before January 1, 2004	Benefits earned on or after January 1, 2004 and before April 1, 2007	Benefits earned on or after April 1, 2007 and before May 1, 2009	Benefits earned on or after May 1, 2009 and before January 1, 2010	Benefits earned on or after January 1, 2010
65 or older	\$4.65	\$3.50	\$3.25	\$2.00	\$1.00
64	\$4.16	\$3.13	\$2.91	\$1.79	\$0.90
63	\$3.75	\$2.82	\$2.62	\$1.61	\$0.80
62	\$3.36	\$2.53	\$2.35	\$1.45	\$0.72
61	\$3.04	\$2.29	\$2.13	\$1.31	\$0.65
60	\$2.75	\$2.07	\$1.92	\$1.18	\$0.59
59	\$2.48	\$1.87	\$1.74	\$1.07	\$0.53
58	\$2.26	\$1.70	\$1.58	\$0.97	\$0.49
57	\$2.05	\$1.54	\$1.43	\$0.88	\$0.44
56	\$1.86	\$1.40	\$1.30	\$0.80	\$0.40
55	\$1.70	\$1.28	\$1.19	\$0.73	\$0.37

2. Benefits payable in the form of a single life annuity will no longer include a payment guarantee of 100 times the portion of the benefit that was earned before January 1, 2004. Thus, payments will cease at the participant's death.

3. Benefits payable in the form of a 50% joint and survivor annuity will no longer automatically convert to a single life annuity if the joint annuitant dies within 5 years of the annuity starting date, or include a 60-month payment guarantee. (Currently, both of these features are provided only with respect to the portion of the benefit that was earned before January 1, 2004.)
4. For participants who begin to receive their pension benefit after age 65, the adjustment to the age-65 benefit will be determined by increasing the age-65 benefit based on the Plan's interest and mortality assumptions for true actuarial equivalence. (Currently, the Plan uses simplified factors to determine this adjustment.)
5. Benefits for individuals who previously participated in the AFM Retirement Plan or the AFM-EP Staff Plan will be available only in the same forms that are available with respect to benefits under the Plan.

In addition to the above changes, the limitations on the maximum annual compensation that may be taken into account by the Plan and the maximum annual benefit that may be paid from the Plan will not increase above their 2010 levels (currently \$245,000 and \$195,000 respectively). Until now, these limits have been indexed annually based on the Internal Revenue Service's established maximum limits.

Employer Contribution Increases

For plans certified as being in critical status, the law requires employers to pay a surcharge on contributions to the Fund. This surcharge is 5% of contributions effective from the Surcharge Effective Date through March 31, 2011, and 10% of contributions effective April 1, 2011. The Surcharge Effective Date is the date that is 30 days after the Plan sends a notice to employers regarding the surcharge, and is likely to be June 1, 2010 (but will not be before that date). By law, this surcharge is over and above the required employer contributions and will not generate any benefit accruals for participants. However, employers can take action that will result in a lower payment, as described below.

The surcharge will not apply if the bargaining parties adopt the contribution schedule required by the rehabilitation plan before the Surcharge Effective Date. The contributions required by this schedule are less than the surcharges and they generate benefit accruals, so the bargaining parties will wish to amend their collective bargaining agreements as soon as possible.

Specifically, the rehabilitation plan is expected to provide that the rate of employer contributions must be increased from the rate in effect on the Surcharge Effective Date. The rate increase required for the period from the Surcharge Effective Date through March 31, 2011 is 4%. The rate increase required on and after April 1, 2011 is 9%. For example, if a collective bargaining agreement has a 10% contribution rate, the rehabilitation plan will require that the contribution rate increase to 10.4% effective on the Surcharge Effective Date and to 10.9% effective April 1, 2011. (If the contribution schedule is not adopted by the bargaining parties by the Surcharge Effective Date, the contribution rate

including the surcharge in this example will instead be 10.5% and 11% until the rehabilitation plan contribution schedule is adopted, and the surcharge will not generate benefit accruals for the participants.)

The contribution rate in the collective bargaining agreement may not be decreased to avoid application of the 5% surcharge or 4% contribution rate increase.

Bargaining parties should note that, if their collective bargaining agreement expires and they have not yet adopted the rehabilitation plan contribution schedule within 6 months after expiration of the collective bargaining agreement, the law requires that **both** the rehabilitation plan contribution schedule **and** the surcharge be imposed.

The rehabilitation plan will contain special rules in certain circumstances; for example, where there is no collective bargaining agreement (e.g., in the case of most local unions that contribute on behalf of their employees) and where contributions are other than a typical percentage of scale wages set forth in a collective bargaining agreement. Further information will follow in that regard.

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The Board recognizes that these changes, which are legally required to implement a valid rehabilitation plan, will significantly affect participants and employers. Participants and bargaining parties should understand that the final details of the rehabilitation plan have not yet been established. Thus, the Fund Office will not yet be able to provide further information as to the particulars.

In the coming weeks and months, the Plan will be preparing much more detailed descriptions of each element of the rehabilitation plan and providing that detailed information to each participant and employer. In addition, once further information is available, it is expected that meetings and/or calls will be arranged so that participants and employers have the opportunity to ask questions.

This notice is only intended to be a very brief summary of the law, the Plan and the upcoming changes to the Plan. It is not intended to be an exhaustive, complete description of the law, the Plan or these changes.¹

¹ Please refer to the official plan documents for a full description of the benefits and other provisions in effect prior to these changes. Please also remember that the terms of the official plan documents will govern in the event of any contradiction between this notice and the plan documents describing current Plan provisions (or between this notice and the plan documents to be adopted later, in the case of changes to the current Plan provisions).