



To: All Participants, Contributing Employers, AFM and AFM Locals

From: Board of Trustees

Re: Enclosed Documents and Update to Rehabilitation Plan

Date: July 29, 2011

In April 2010, the Board of Trustees of the American Federation of Musicians and Employers' Pension Fund (the "Plan") informed you that the Plan had been certified by its actuary to be in "critical status" (also known as the "red zone"). For this reason, as required by the Pension Protection Act of 2006 ("PPA"), the Plan's Board of Trustees adopted a rehabilitation plan requiring increases to employer contributions and reductions to certain benefits.

These changes, of course, have helped improve the Plan's funded status. There were also a number of other positive developments. For example, the Plan had investment returns of 30.14% and 12.11% in the Plan years ending March 31, 2010 and 2011, respectively, as compared to the assumed rate of return of 7.5%. In addition, as you will see from the enclosed **Notice to Participants and Beneficiaries Regarding Funding Relief**, the Board of Trustees elected to take advantage of recent "funding relief" legislation that allows the unprecedented investment losses for the Plan year ending March 31, 2009 to be taken into account over a longer period of time. (Although, as described below, funding relief changes the funded percentage of the Plan in the short term, it does not change the actual dollars in the Plan or the benefits that the Plan will have to pay over time.)

As you will note from the enclosed **Annual Funding Notice**, the Plan's funded percentage (for PPA purposes) was 94.5% as of April 1, 2010. This takes into account the funding relief described above. Without funding relief, the funded percentage would have been 88%. The funded percentage as of April 1, 2010 is significantly greater than the funded percentage as of April 1, 2009, which was 81.4% when taking into account funding relief (or 75.2% without funding relief).¹

Nevertheless, as you will also see from the enclosed **Notice of Critical Status**, the Plan remains in critical status for the current Plan year (which began April 1, 2011). This is because a plan can be in critical status regardless of how well funded it is if, as is the case here, future contributions are projected to be less than the amount required by law to meet minimum funding requirements. Since the economic downturn in 2008, the rate of contribution growth has been less than expected, and the projections concerning future contributions have been modified to be more conservative to reflect this development. Please keep in mind that all projections are by definition based on a number of assumptions about the future that may or may not be realized. If the Plan were to outperform the assumptions that are being used, it could be in a position to emerge from critical status.

The Plan's funded percentage (for PPA purposes) as of April 1, 2011 will not be known until the actuarial valuation for the most recent plan year, ending March 31, 2011, is complete. However, the funded percentage is estimated to be 92.4% (82.9% without funding relief). This estimate reflects a slight decrease from the previous year's funded percentage because a portion of the losses from the Plan year ending March 31, 2009 is still being

¹ The funded percentage does not include investment returns after the date as of which the percentage is calculated. For example, the funded percentage of April 1, 2010 does not take into account the investment returns for the Plan year ending March 31, 2011.

taken into account under the “smoothing” method described in the attached *Notice to Participants and Beneficiaries Regarding Funding Relief*.

As was the case last year, the Plan’s actuary projects that, even if the Plan meets its current assumptions without exceeding them, the Plan will *not* become insolvent over the next 40 years, which is the longest period over which the actuary has made projections. Accordingly, based on those assumptions and projections, the Plan continues to be expected to be able to pay all benefits that become due over this 40-year projection period.

As required by law, this package includes the following documents with information regarding the Plan:

- **Notice of Critical Status for Plan Year Ending March 31, 2012:** This notice advises you that, as was the case last year, the Plan was certified in critical status. It describes the legal reason for that certification and discusses the implications of it. Unlike last year, there are no additional changes being made to benefits as a result of this certification.
- **Annual Funding Notice for Plan Year Ending March 31, 2011:** All defined benefit plans like the Plan are required to provide you with this annual notice, regardless of their funded status. Please be aware that parts of this notice reflect the finances of the Plan as of April 1, 2010, rather than March 31, 2011.
- **Notice to Participants and Beneficiaries Regarding Funding Relief:** This document advises you that the Plan’s Board of Trustees elected to take advantage of special rules that provide a longer period for the Plan to take into account the unprecedented investment losses in the Plan year ending March 31, 2009. The notice also discusses the implications of that election.

We also want to make you aware of certain technical changes to the Rehabilitation Plan adopted by the Board on April 15, 2010. These changes should affect very few, if any, collective bargaining agreements.

The changes are as follows:

- The Rehabilitation Plan originally provided that, effective in the fifth year of any collective bargaining agreement entered into on or after May 1, 2010 that establishes pension contributions for a term of more than four years (including extensions), the contribution rate will increase an additional 25% above the contribution rate otherwise applicable to those contributions (and the portion of the increase above 9% will not generate benefit accruals). This provision of the Rehabilitation Plan was amended to provide that the increased contribution rate will be effective in the *sixth* year of any collective bargaining agreement entered into on or after May 1, 2010 that establishes pension contributions for a term of more than *five* years (including extensions). Thus, a contract of five years or less (rather than four years or less) will not be subject to the 25% increase.
- The Rehabilitation Plan originally provided that the Plan would apply for IRS approval to extend (by up to five years) the period over which its unfunded liability is amortized. The Rehabilitation Plan was amended to remove this provision, since the Plan’s Board of Trustees instead elected to take advantage of the special funding relief rules described in the enclosed notices.

As always, the Fund Office is available to answer questions regarding these notices. Questions should be directed to the Fund Office by phone to Customer Service at 1-800-833-8065 (extension 1311), by e-mail through the “Contact Us” link on our web site (www.afm-epf.org) or by mail.