As mentioned in our December 2016 letter, we are committed to making sure you have ongoing information about the Plan's status. This newsletter will help clarify the enclosed notices, the Plan's current status, and the impact on you. ♬ For the most current information, visit www.afm-epf.org. If you're new to the site, it takes only a few minutes to register and you'll be set up to receive alerts as information is posted.

Many of you have asked very good questions. For the benefit of all participants, answers to some of those are included at the end of this newsletter. See our website for more FAQs (Frequently Asked Questions).

What's Enclosed

Enclosed you will find these two important documents, both required by law:

- **Annual Funding Notice** — Describes funded status for the recently ended fiscal year (in this case, April 1, 2016–March 31, 2017). You will see that the most recent funded percentage was 69.0% as of April 1, 2016. Although the funded percentage for the year starting April 1, 2017 won't be known until the actuarial valuation is complete, it is estimated to be 65%.
- **Notice of Critical Status** — Covers a different timeframe; it looks forward instead of back like the funding notice. The Plan remains in critical status for fiscal year April 1, 2017–March 31, 2018.

There are two basic ways to determine the funded status: using market value or actuarial value. **Market value** shows a plan's funded status based on the actual market value of assets at a given date. Since market values can change from day to day, funded status calculated on market value can fluctuate widely. **Actuarial value** for this Plan uses averaged investment returns over a period of time to calculate asset values. That smooths out the effects of short-term fluctuations in the market value of assets, providing a clearer picture of the trend in funded status.

Asset values used to measure funded percentages in the funding notice must be based on **actuarial value**, not **market value**. Because it's more meaningful to describe our current situation, we have been communicating results for the last several months in conferences, meetings and on our website, using market value. For consistency, unless otherwise noted, you'll see market value used in the remainder of this newsletter as well.

Keep reading for more information, including definitions of unfamiliar terms.

Higher Than Expected Investment Returns Keep the Plan in Critical (but Not Critical and Declining) Status for Another Fiscal Year

At the May 2017 Board of Trustees' meeting, the Plan's actuaries advised the Board that better than expected investment returns kept the Plan in "critical" and not yet "critical and declining" status for another fiscal year.

It remains likely that the Plan will become critical and declining at some point in the future, perhaps as early as the next fiscal year (beginning April 1, 2018). However, the Plan's status will depend on investment returns, contributions, and other results during this fiscal year.

Busting the Myths

With the speed of today's internet, inaccurate information can be shared quickly. Sometimes it's hard to know where to turn — how can you tell whether what you're reading is true? Here are a few myths we've seen, along with the facts.

Myth #1: We're not critical and declining so we're "safe."

Though Plan status is critical for another year and has been since 2010, avoiding critical and declining status doesn't mean the Plan is healthy. High investment returns were extremely helpful in keeping us out of critical and declining status for this fiscal year. But we can't overlook the fact that in the fiscal year ending March 31, 2016, contributions covered only 42% of our benefit payments. That means we had much more money leaving the Plan in the form of benefit payments than money coming in through contributions, making us reliant on investment returns to fill the gap. Over time our assets haven't kept pace with the growth in our liabilities. Keep reading for more on assets and liabilities.

Myth #2: The Keep Our Pension Promises Act (KOPPA) proposed by Senator Bernie Sanders is good for participants.

The Trustees would strongly support legislative changes that would help the Plan secure participants' pensions without relying only on benefit cuts. Unfortunately, the current KOPPA bill would not accomplish this goal.

Why not? Because a key KOPPA provision would not apply to our Plan. Relief provided by KOPPA pertains only to plans with a certain percentage of their funding problem caused by employers who withdrew without paying their assigned portion of the plan's liability. Because our Plan does not have the required percentage, KOPPA's relief wouldn't be available to us.

KOPPA would also eliminate the Plan's ability to avoid insolvency (running out of money) by reducing benefits. While no one wants to see benefit reductions happen, the option is important as a last resort. Benefit reductions could allow the Plan to continue paying higher benefits than if it became insolvent. As it's written, KOPPA would shorten the life of the Plan.

The Trustees, as well as the AFM, have voiced strong interest in finding a solution to the Plan's problems. Ray Hair and Tino Gagliardi, on behalf of the AFM, met with senior staffers from the offices of Senators Bernie Sanders, Tammy Baldwin, and Al Franken, three Democratic sponsors of the KOPPA bill, to discuss what changes to the proposed legislation might allow the Plan to meet the Trustees' goal: protecting as much as we can for as long as we can.

Myth #3: The Plan lost 40% in investment returns when other plans lost 25%.

The Plan lost 29% in investment returns for the 12 months (fiscal year) ending March 31, 2009. We've tracked the misunderstanding back to the Plan's December 2016 letter from the Board that said Plan assets declined by 40% over 18 months. Some have read this to mean the Plan's investment return was negative 40% over that period but that was not the case. The decline in assets was due to a combination of factors, not just investment returns; see the FAQs in this letter as well as our website for a detailed explanation.

Myth #4: The Fund Office received huge staff pay increases in 2009.

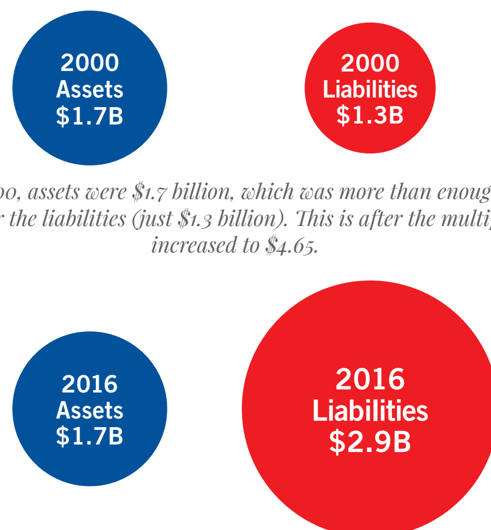
We've tracked this misunderstanding back to the change in IRS reporting requirements for the compensation numbers shown on Form 5500 Schedule C. The rules changed in 2009 to expand the definition of compensation to include not just salary but all payments made on behalf of staff—including, for instance, health insurance and other benefit costs, travel reimbursements, and other expenses incurred while performing their job.

Fund Office staff cost increases have averaged only **2.16%** a year from fiscal year 2009 to 2016. This modest increase, only slightly more than the consumer price index, includes an increase in staff health care premiums, over a period when premiums rose on average more than 25%.

Assets and Liabilities—Plain Language

Money is consistently flowing in and out of pension plans. The money flowing in through contributions and investment returns increases the assets. Of course, money also flows out in the form of benefit payments and expenses, which reduces assets. The term "liabilities" refers to the value of benefits that have already been earned by and promised to participants—including current and future payment obligations.

Here's how the Plan's assets and liabilities have changed over the years:



In 2000, assets were $1.7 billion, which was more than enough to pay for the liabilities (just $1.3 billion). This is after the multiplier increased to $4.65.

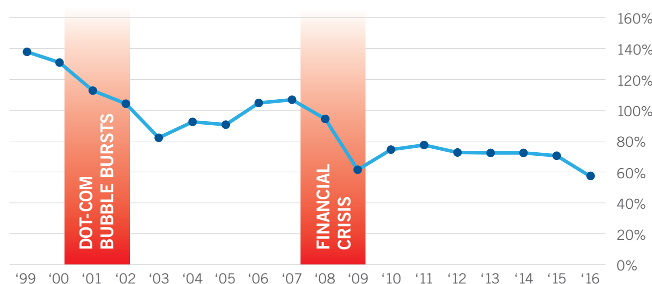
2016 assets were still $1.7 billion but liabilities had grown to $2.9 billion—a significant increase. See the first FAQ on the back page for details on what happened.

The ratio of assets to liabilities is a funded percentage, which measures the ability for a plan to cover future benefits. It is normal for a plan's funded percentage to change from year to year, which is why the Plan is required by law to communicate this information to participants in the Annual Funding Notice.

Funding History

For over 40 years, the Plan was well funded. Returning to previous funding levels has been much more difficult following two big economic downturns: the bursting of the dot-com bubble and, almost a decade later, the 2008–2009 financial crisis. Combined with people living much longer than even anticipated and benefit payments far exceeding annual contributions, the challenges have been significant. See the FAQs for more about these challenges.

FUNDED PERCENTAGE
(based on market value of assets)



Stepping Up Communication

Our Trustees take seriously the commitment to more frequent, comprehensive communication. Since the beginning of the year, Trustees have worked closely with the Fund Office to update our website and ensure one-click access to a range of Plan information, including FAQs about the Plan's status. In addition, Plan professionals, Fund Office and Trustees have conducted a number of presentations across the nation to listen and better explain what's happening.

Register Today and Get the Latest Plan News

Log on to www.afm-epf.org and register for easy access to:

- FAQs (updated as new information becomes available)
- Update your personal information, including your address so you don't miss important mailings
- View or download the Plan's most recent Form 5500 and quickly link to the Department of Labor website for older Form 5500s
- Review recent investment reports
- Download document request forms (to obtain more information)
- View your beneficiary information and download a Beneficiary Form
- Get your detailed Annual and Interim Covered Earnings Report (available quarterly)
- Choose eDelivery to receive email notifications when new information is available, including Plan mailings.

Important Definitions

These definitions might come in handy as you review our materials and the required notices:

Fiscal year: April 1–March 31 for our Plan.

Certification: The annual required determination by actuaries of a pension plan's funded status based on actuarial value of assets, completed within 90 days of fiscal year-end (this year for our Plan before June 29, 2017).

Critical status: The Plan's current status. This recognizes that, while the Plan can pay benefits for the next 20 years, the funded status is low enough to require a rehabilitation plan to improve it.

Critical and declining status: This funded status would mean the Plan is projected to run out of money within 20 years.

Rehabilitation plan: A plan that outlines benefit reductions and/or contribution increases intended to restore the plan to financial health or forestall insolvency. The Plan adopted a rehabilitation plan in 2010, which was updated in 2016.

Multiemployer Pension Reform Act (MPRA): A law passed by Congress in 2014 that created the new critical and declining funded status for multiemployer pension plans.

Pension Benefit Guaranty Corporation (PBGC): A U.S. government corporation that insures pension benefits up to the maximum set by law. Pension plans such as the AFM-EPF are required by law to pay annual premiums to the PBGC.

Frequently Asked Questions

1. If investment returns have been generally strong since the financial crisis, why didn't they fix the Plan?

Investment returns — generally good but not every single year and not enough to overcome the other challenges described here.

It takes more than strong returns in most years to build back losses in a pension plan because other important factors are at play:

- Starting in fiscal year ending March 31, 2010, the Plan experienced gross annual returns of 32.0%, 12.8%, 2.2%, 8.8%, and 8.3% — an annual 12.5% average. This meant we had a $500 million increase in market value of our assets in the five-year period ending March 31, 2014.
- The next two fiscal years were not as kind. Market value of our assets was dampened by lower returns, with a gross annual return of 5.2% for fiscal year ending March 31, 2015 and an essentially flat return for fiscal year ending March 31, 2016.
- While a gross annual return of 12.0% for fiscal year ending March 31, 2017 kept the Plan out of critical and declining status for at least one more year, it did not fix the larger funding issues.
- Over eight years, the Plan's gross annual investment return averaged 9.8%, which is good but not good enough.

Contributions — covered only 42% of our benefit payments during the fiscal year ending March 31, 2016.

In addition to strong investment returns, we need a strong base of contribution income. Our Plan pays more benefits than our peers relative to contributions we receive, which covered only 42% of benefits paid out for the fiscal year ending March 31, 2016. Other similarly-sized entertainment industry funds showed contributions covering between 72% and 193% of annual benefit payments. And this gap between contributions and benefit payments for our Plan is getting wider.

*Actuarial assumptions — while we know people are living longer, recent actuarial studies show it's even **longer** than anticipated.*

Our liabilities (money needed to pay future benefits) increased by almost $300 million for fiscal year ending March 31, 2016, largely from an update to assumptions that predict how long participants will live, based on recent actuarial studies. We know people are living longer (and the actuaries assumed they would) but the studies showed even longer lifespans than previously anticipated. While this is good news personally, it creates difficulties for a pension plan. Unlike a 401(k) where payments continue only until the balance is depleted, pension benefits are designed to continue for the participant's life. Longer life expectancies mean much higher liabilities.

From 2004–2016, annual benefit payments increased by $69 million while annual contributions increased only $18 million.

Benefit payments continue — as they should.

Money is continuously flowing out of the Plan as benefits are paid, which is exactly what a pension plan is designed to do. When there's a market downturn, 401(k) plans can bounce back more easily because money isn't regularly flowing out. Pension plans with strong contributions can bounce back more easily than this Plan because money coming into those plans covers a larger portion of what is flowing out.

Putting it all together — the investment base is smaller.

With benefit payments increasing and contributions declining as a percentage of benefits paid, each year we're left with less of an asset base to generate investment returns. "It takes money to make money" applies here. The larger your asset base, the more money you can generate with positive investment returns.

As a result, even several years of good investment returns weren't enough to fix the Plan.

2. How will I know if the Plan enters critical and declining status?

We will notify you if the Plan becomes critical and declining; that cannot happen this fiscal year.

3. Will my benefits be reduced?

Reductions to your accrued benefit are possible only if the Plan becomes critical and declining. We are not in critical and declining status for the April 1, 2017–March 31, 2018 fiscal year. Even if we become critical and declining and benefits are cut, you will continue to receive your pension check. Benefits cannot be reduced to less than 110% of the PBGC guaranteed amount.

What's Next?

Because we are still in critical status, benefit reductions we've described in the context of becoming critical and declining are not possible this year. Next year, we will go through the same process — as we have every year in the past — to determine the Plan's status. We anticipate critical and declining status could be in our future at some point and we'll prepare for it appropriately. Until then, we will continue to monitor our progress, review our investments, collect our contributions, and manage our expenses.

We are committed to keeping you current with ongoing information. Please continue to watch for updates on our website. ♫