Early Retirement—What You Need to Know

Don’t let this happen to you...

You apply to start your pension benefit. You have a retirement party, say your goodbyes and begin receiving your pension on April 1st. In May you get a call, “Can you fill in? We’ll pay you.” It’s not your former employer, it would help the community, and you’re getting a bit bored. You take the job. You don’t stop to ask if the organization contributes to the AFM-EPF.

Months later you receive a notice from the Plan. Your pension benefit is being terminated and you have to pay back seven months’ worth of pension payments that were made to you. Plus, you have to re-apply to start your pension again and that will take time. It’s a huge hassle and a financial strain. All for one little job.

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There are two key things you need to know if you wish to start your pension benefit before age 65:

1. When you start the benefit application process, you must have every intention to retire and have no plans to return to any kind of work for a participating employer.

2. Your benefit will be lower than if you wait until 65 to start payments.

1. When you start your benefit, you must intend to stop working

The purpose of a pension plan is to provide retirement security through income replacement in retirement. A pension is not generally designed to be paid while you are continuing to work. In fact, most multiemployer pension plans suspend or stop paying benefits for those who return to work after retirement. The AFM-EPF does not suspend benefits for those who return to work after retirement, meaning you can retire and then later return to covered employment. If you retire before you turn age 65, however, you must satisfy the Plan’s early retirement rules or risk being determined not to have retired.

In order to start your AFM-EPF benefit before 65, you must meet all three of these requirements:

- You are at least age 55
- You are 100% vested in your benefit, ___
- You retire from all employment with all employers contributing to the Fund.

The first two requirements are quite straightforward. However, the notion of retiring from all employment with Contributing Employers is sometimes misunderstood.

How the Fund determines that you have retired

The requirement that you stop working if you start your benefit before 65 was adopted to comply with federal tax law and avoid jeopardizing the tax treatment of every participant’s pension benefits and contributions to the Plan.

To be eligible for early retirement, you must have no intention or expectation to do any kind of work in the future for any of the employers that contribute to our Plan. As part of your application for your pension, you will be required to sign an affidavit confirming that you are retiring from all employment with all employers.
contributing to the Fund. If you are deemed to be steadily employed, the Fund Office will also contact your employer(s) to confirm your retirement date and verify that you have no right to return to that employment.

After your Pension Effective Date, the Plan will monitor contributions for the two months following your Pension Effective Date to verify that you perform no work of any kind for any Contributing Employers.

**Important—please note:**

1. **If at the time of your Pension Effective Date you have already scheduled any future work,** *even if it’s beyond these two calendar months,* this is considered an intention or expectation to work, and you will not be considered retired.

2. **If you’re employed in steady work that has seasonal breaks (such as a symphony), the two months apply not only after your Pension Effective Date, but also for the two calendar months at the beginning of your employer’s next season.**

What if the Plan determines I didn’t retire?

Six months following your Pension Effective Date, the Fund Office will look back at the first two months after your benefit started. If the Plan determines that you did not retire, your pension benefit will be terminated and, because it was not a valid retirement, you will be required to repay the benefits you received with interest.

For example, if your Pension Effective Date is April 1 and you do some work for a Contributing Employer in May. The Fund Office will review the six months after your Pension Effective Date, in November. Therefore, the fact that you worked within two months of your Pension Effective Date will not be discovered until you have received seven months of benefits and you would have to repay all seven months, with interest. When you actually end employment with all Contributing Employers or you reach Normal Retirement Age, you will need to apply for your pension benefit again.

Can I work again after I’ve retired early?

If you perform any kind of work for a Contributing Employer in the two calendar months after your Pension Effective Date, you will be considered not to have retired and your pension will be terminated. This includes if you had pre-scheduled work engagements before retiring, even if they are after the two month period. It also includes going back to steady employment after a seasonal break, if it is within two calendar months after the start of the new season.

However, if you did intend to retire and did not return to work in the two calendar month period after you retired and started your pension, you can then go back to work, continue receiving your pension benefit, and earn additional benefits.

*As stated previously: if at the time of your Pension Effective Date you have already scheduled any work, even if it’s beyond the two calendar month period, it is considered an intention or expectation to work, and you will not be considered retired.*

This is only a summary of the rules. For more detailed information, please review the Plan’s [early retirement procedures](https://www.afm-epf.org) at www.afm-epf.org.

**Consider how retirement may affect your terms of employment**

Apart from any of these AFM-EPF rules, you should consider the other terms of your employment before you apply for early retirement. Different employers have different rules that may impact your retirement decision. For example, in order to start collecting your early pension benefit, a symphony may require that you give up your tenure or, if you’re employed in a steady position such as a local officer, you may need to actually resign.
2. Your benefit will be lower than if you wait until 65 to start payments

Pension plans are generally designed to produce a benefit that starts at normal retirement age – usually age 65. Many plans, including the AFM-EPF, allow participants to retire and start their benefits at an earlier age.

The AFM-EPF allows you to retire early and start your benefit at any age from 55 through 64. Your benefit is calculated based on your age when you start your benefit (called the Pension Effective Date). Your age on your Pension Effective Date is determined as of the first of the month following your last birthday.

The younger you are, the lower the multiplier. It’s similar to Social Security. You can start your Social Security benefit as early as age 62, but it will be reduced compared to what you would get at your normal retirement age.

Why are the multipliers lower for early retirement?

Let’s say someone was entitled to a monthly benefit at age 65 but instead took that same amount at an earlier age. That benefit would be worth a lot more and cost the Plan more to provide. This is true for two reasons:

1. The person would get that payment for a longer period of time, so they are getting more money by starting early.

2. The person is getting money sooner, and money paid sooner is worth more than money paid later. That’s because when money comes out of the Plan early, that money isn’t available to earn investment income for as long a period of time. And it is worth more to the person who got the money earlier because he or she can invest it for longer. (This is sometimes referred to as the time value of money.)

In order for a benefit paid before age 65 to be equivalent in value to a benefit at age 65, the amount has to be reduced. That lower amount is called the “actuarial equivalent” of the age-65 amount. (The term “actuarial” is used because in order to figure out how much to reduce the age-65 benefit, actuaries have to make certain assumptions such as how long people are expected to live and what interest rate to use to figure out the time value of the money described above.)

$1.00 multiplier at age 65  =  $0.37 multiplier at age 55

An actuarial reduction isn’t a penalty because someone took their benefit early. It is simply a mechanism for making the early benefit equivalent in value to the age-65 benefit.