



Fund

American Federation
of Musicians &
Employers' Pension Fund

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IMPORTANT NOTICE

To: All Participants
From: Board of Trustees
Re: Changes to the Plan Effective January 1, 2004
Date: December 15, 2003

This notice contains important information about your future benefits from the American Federation of Musicians & Employers' Pension Fund (the "Pension Fund").

Over a period of many years, the Pension Fund's Board of Trustees has been able to substantially increase the benefits that you and other working musicians earn based on the contributions that employers make on your behalf, up to the current level of \$4.65 monthly for every \$100 of contributions for benefits commencing at age 65. The Board of Trustees has also been able to similarly increase benefits for most retired musicians. All of these benefit improvements were made possible by extremely favorable investment returns in the 1980s and 1990s.

From 2000 to early 2003, the equity financial markets suffered three consecutive years of the worst investment results since the Great Depression. The Pension Fund, like almost every other major pension fund in the U.S., suffered significant investment losses through early 2003.

The Pension Fund's actuarial consultant advised the Board of Trustees in the spring of 2003 that, because of the unfavorable investment experience of the last three years, the Pension Fund could not continue to provide benefits of \$4.65 for every \$100 of future contributions, along with all of the other current benefit features, and continue to satisfy the minimum funding requirements of federal law. Over a period of many months, the Board of Trustees — in conjunction with the Pension Fund's actuarial and legal consultants and professional staff — carefully considered whether there were any alternatives, including whether it was possible to wait and hope for an extended recovery in the financial markets to make up the past three years' losses.

After numerous meetings and extremely difficult deliberations, the Board of Trustees reluctantly came to the conclusion that there was only one feasible course of action — reductions to the rate at which future benefits are earned must be made effective January 1, 2004 to preserve the financial integrity of the Pension Fund. This notice describes those reductions. **None of these changes will reduce benefits that are already being paid to retirees, or regular retirement benefits already earned through December 31, 2003.**

In making this difficult decision, the Board of Trustees worked very hard to continue to provide benefits to as many working musicians as possible while treating all groups of participants fairly. The Board also endeavored to keep future benefit accruals as high as possible while continuing to preserve the Pension Fund's financial integrity and comply with federal law.

1. BENEFIT MULTIPLIER

Pension benefits paid by the Pension Fund are generally determined by multiplying every \$100 of contributions earned by a participant by a specified dollar amount, known as the "benefit multiplier."

The benefit multiplier will change for all contributions earned on and after January 1, 2004 (contributions are treated as earned on the date the work is performed; special rules apply to contributions on new use and re-use payments). The benefit multiplier for each age at which benefits may begin is specified in the chart below. The current benefit multiplier, which applies to contributions earned before 2004, is set forth in Column A. The benefit multiplier that will apply to contributions earned on and after January 1, 2004 is set forth in Column B.

- **If you are currently receiving a pension, your pension amount will not be reduced.**
- **Your pension amount will not depend on when you file an application (except for disability pensions: see discussion in 5 below). Your pension amount will change based only on the contributions you earn after 2003. The fewer contributions you earn after 2003, the smaller the effect of the change in the benefit multiplier on your pension.**



Age at Benefit Commencement	Current Benefit Multiplier For Contributions Earned Through December 31, 2003 Payable as a Single Life Annuity with Guarantee (Column A)	New Benefit Multiplier For Contributions Earned on and after January 1, 2004 Payable as a Single Life Annuity (Column B)
65	4.65	3.50
64	4.46	3.13
63	4.28	2.82
62	4.09	2.53
61	3.91	2.29
60	3.72	2.07
59	3.44	1.87
58	3.16	1.70
57	2.88	1.54
56	2.60	1.40
55	2.33	1.28

Participants with contributions both before 2004 and after 2003 will have their benefits calculated by applying the benefit multiplier in Column A to the contributions earned before 2004, and the benefit multiplier in Column B to the contributions earned after 2003, as shown in the following examples. Note that the examples assume that benefits are paid in the form of a single life annuity (with a guarantee, in the case of benefits based on contributions earned before 2004: see discussion in 2 below). Benefits paid in the form of a 50% joint-and-survivor annuity will be reduced to pay for the survivor annuity, just as under current Pension Fund rules.

Example 1A:

Brad begins to receive his pension in July 2005 at age 65. Total contributions made on his behalf are \$60,000 for work before 2004 and \$10,000 for work after 2003. Brad's monthly benefit is \$3,140, calculated by adding (i) the benefit attributable to the \$60,000 ($\$60,000 \div 100 \times \$4.65 = \$2,790$), plus (ii) the benefit attributable to the \$10,000 ($\$10,000 \div 100 \times \$3.50 = \350). If the rules had not changed, his monthly benefit would have been \$3,255 ($\$70,000 \div 100 \times \4.65).

Example 1B:

Joanne begins to receive her pension in August 2006 at age 59. Total contributions made on her behalf are \$45,000 for work before 2004 and \$15,000 for work after 2003. Joanne's monthly benefit is \$1,828.50, calculated by adding (i) the benefit attributable to the \$45,000 ($\$45,000 \div 100 \times \$3.44 = \$1,548$), plus (ii) the benefit attributable to the \$15,000 ($\$15,000 \div 100 \times \$1.87 = \280.50). If the rules had not changed, she would have received a monthly benefit of \$2,064 ($\$60,000 \div 100 \times \3.44).

Example 1C:

Sheila began receiving her pension in February 2003 at age 65, in the monthly amount of \$1,300. After beginning her pension, she earned additional contributions during 2003 in the amount of \$2,000. These contributions will result in an additional monthly benefit of \$93 ($\$2,000 \div 100 \times \4.65) beginning July 1, 2004, Sheila's first "redetermination date."

Sheila earns additional contributions in 2004 in the amount of \$4,500. These contributions will result in an additional monthly benefit of \$157.50 ($\$4,500 \div 100 \times \3.50) beginning July 1, 2005. If the rules had not changed, she would have received an additional monthly benefit of \$209.25 ($\$4,500 \div 100 \times \4.65).

(Additional contributions earned in 2005 will be offset by the \$157.50: see example 6A below).



2. SINGLE LIFE ANNUITY AND 50% JOINT-AND-SURVIVOR BENEFIT FORMS

Currently, the single life annuity payment form includes a “guaranteed amount” generally equal to 100 multiplied by the monthly benefit at benefit commencement. Thus, if a participant begins to receive payment as a single life annuity and dies before receiving the total guaranteed amount, the participant’s beneficiary will receive any remaining portion of the total guarantee. (The guarantee was previously changed on June 30, 2002, and a larger guarantee may apply depending on the contributions made as of that date. See Winter 2002 *Pension Fund Notes* for details.)

Similarly, the 50% joint-and-survivor annuity now includes a “60-month guarantee” under which, if the participant and his or her joint annuitant both die before receiving a total of 60 monthly payments, the participant’s beneficiary will receive monthly payments for the rest of the 60 months, with each monthly payment equal to the amount that the participant would have received under the single life annuity payment form. The 50% joint-and-survivor annuity also includes a “pop-up” feature under which, if the joint annuitant predeceases the participant within 60 months of the commencement of the pension, the participant’s monthly payment will “pop up” from the 50% joint-and-survivor annuity amount to the single life annuity amount.

The guarantees will no longer apply to the portion of the benefit attributable to contributions earned after 2003. Therefore, the “guaranteed amount” under the single life annuity form will generally be equal to 100 multiplied by the monthly benefit attributable to pre-2004 contributions. The “60-month guarantee” and “pop-up” features of the joint-and-survivor annuity form will similarly apply only to the portion of the benefit earned before 2004.

Example 2A:

Len is entitled to a regular pension benefit on June 1, 2005, at age 65. Contributions on his behalf total \$200,000 through December 31, 2003, and \$18,000 on or after January 1, 2004. If Len takes his benefit in the form of a single life annuity it will be \$9,930 per month, comprising \$9,300 attributable to pre-2004 contributions ($\$200,000 \div 100 \times \4.65) and \$630 attributable to post-2003 contributions ($\$18,000 \div 100 \times \3.50). The guarantee will be $100 \times \$9,300$, or \$930,000. If Len dies after receiving 10 payments, or \$99,300, his beneficiary will receive the balance of the guarantee, or \$830,700 ($\$930,000 - \$99,300$).

If Len takes his benefit in the form of a 50% joint-and-survivor annuity with his wife, who is five years younger than he is, as his joint annuitant, his monthly benefit will be \$9,006.51 ($\$9,930$ multiplied by a conversion factor of 0.907, reflecting the five-year age difference between Len and his wife). If Len dies after receiving 30 payments and his wife dies after receiving 10 payments of the 50% survivor annuity, Len’s beneficiary will receive payments for the remaining 20 months of the 60-month guarantee in the amount of \$9,300 per month (the pre-2004 portion of the benefit that Len would have received had he elected the single life annuity).

(This example assumes that no higher guarantee applies to the pre-2004 portion of Len’s benefits as a result of contributions made on his behalf as of June 30, 2002.)

3. VESTING AND PARTICIPATION SERVICE

Currently, participants receive $\frac{1}{4}$ year of vesting service for each \$375 of covered earnings during a calendar year, up to a maximum of one year of vesting service per calendar year for covered earnings of \$1,500 or more. For vesting service earned after 2003, participants with fewer than 3 years of vesting service on January 1, 2004 will need \$750 of covered earnings during a calendar year to receive a $\frac{1}{4}$ year of vesting service, or \$3,000 during a calendar year to receive a full year of vesting service. **This change will not affect anyone who is already vested and will not alter the amount of vesting service a participant has earned through 2003.** Also, each participant with three or more years of vesting service on January 1, 2004 will continue to earn vesting service under the current rules unless he or she has a permanent break-in-service after 2003.



Example 3A:

Irving has two years of vesting service as of January 1, 2004. In 2004, he has \$1,000 of covered earnings, for which he receives ¼ year of vesting service. In 2005, Irving has \$1,800 of covered earnings, for which he receives ½ year of vesting service. In both 2006 and 2007, he has \$3,000 or more in covered earnings, for which he receives an additional two full years of vesting service. Irving will become vested in 2008 once his covered earnings reach \$750, for which he will receive ¼ year of vesting service, bringing his total years of vesting service to five.

Example 3B:

Jenny has four years of vesting service as of January 1, 2004. In 2004, Jenny has \$2,000 in covered earnings, for which she will receive one additional year of vesting service for 2004. Jenny will thereafter be fully vested in all benefits she has earned in the past and will earn in the future.

Example 3C:

Seth has three years of vesting service as of January 1, 2004, but has had no covered earnings since 1999. If Seth has no covered earnings in 2004, he will have had five consecutive years with no covered earnings or vesting service, and will therefore have a permanent break-in-service on December 31, 2004. To earn vesting service after 2004, Seth will need to have at least \$750 in covered earnings during a calendar year. If, however, Seth earns at least \$375 in covered earnings in 2004, he will earn ¼ year of vesting service and will continue to earn ¼ year of vesting service for every \$375 in covered earnings up to a maximum of one year of vesting service during a calendar year, unless he has a permanent break-in-service.

Also, to become a participant in the Pension Fund, an individual must currently earn \$375 in covered earnings during a calendar year. To become a participant after 2003, an individual must have \$750 of covered earnings during a calendar year.

4. PRE-RETIREMENT DEATH BENEFITS

Currently, if a vested participant dies before commencing a pension benefit, the participant's spouse (or other beneficiary if the participant is not married) receives a death benefit equal to the monthly benefit that the participant would have received if benefits had commenced at age 55 (or on the date of death, if later) multiplied by 100. Depending on when the beneficiary applies for the benefit, the beneficiary may elect to receive the benefit as a single lump sum, in installments, or as a monthly annuity for life.

For all vested participants who die on or after January 1, 2004 before commencing a pension benefit, the pre-retirement death benefit will be paid only as a monthly annuity for the life of the participant's spouse (or other beneficiary if the participant is not married).

The amount of the monthly benefit will depend on the participant's age on the date of death. If the participant was **age 55 or older** at death, the beneficiary will receive the same monthly benefit that he or she would have received if, instead of dying, the participant had begun to receive a 50% joint-and-survivor annuity beginning the month after the date of death, and the beneficiary was the surviving joint annuitant. If the participant was **younger than age 55** at death, the beneficiary will receive the same monthly benefit that he or she would have received if, instead of dying, the participant had begun to receive a 50% joint-and-survivor annuity at age 55, and the beneficiary was the surviving joint annuitant. The amount payable to the beneficiary may be adjusted as described below, depending on when payment commences.

The benefit may begin to be paid to the beneficiary as early as the first of the month following the participant's date of death, if an application is filed at the Fund Office in a timely manner. A non-spouse beneficiary must commence the benefit by the end of the year following the year in which the participant died. A surviving spouse may delay the commencement of benefits, but no later than the date the participant would have reached age 65. Benefits that begin before the date the participant would have reached age 55 will be "actuarially reduced" from the amount described in the paragraph above; that is, each monthly payment will be smaller to take into account that payments are anticipated to be made over a longer period of time than if they began when the participant reached age 55. Conversely, delayed benefits will be "actuarially increased" from the amount described in the paragraph above; that is, each monthly payment will be larger to take into account that payments are anticipated to be made over a shorter period of time than if they began upon the participant's death. In either case, the total value of the expected payments will be the same as if monthly payments were made beginning at age 55 (or at the participant's death, if later).



Example 4A:

Robert, who is married, dies at age 60 on July 15, 2004, before beginning a pension. Based on the contributions made on his behalf, if he had elected to receive a pension effective August 1, 2004 in the form of a 50% joint-and-survivor annuity with his spouse as his joint annuitant, his monthly benefit would have been \$600, and the benefit payable to his surviving spouse on his death would have been 50% of that amount, or \$300. Robert's surviving spouse is eligible for an immediate pre-retirement survivor annuity in the amount of \$300 per month for the rest of her life. Or she can wait to begin the benefit, in which case it will be "actuarially increased," but she must start the benefit by Robert's 65th birthday in 2009.

Example 4B:

Julie, who is not married, dies at age 50 on January 10, 2005, before beginning a pension. She has designated her brother Howard, who is age 45, as her beneficiary for the pre-retirement death benefit. Based on the contributions made on her behalf, her benefit at age 55 payable as a 50% joint-and-survivor annuity (with Howard as her joint annuitant) would have been \$250, with \$125 per month payable to Howard upon her death. Howard is eligible for an immediate pre-retirement survivor annuity in the amount of \$125 per month, reduced to account for the fact that he is receiving the benefit before Julie would have reached age 55. Using factors currently specified in the plan document (which are required to be changed from time to time), the amount payable is \$92.01 per month if Howard commences the survivor benefit effective February 1, 2005.

5. DISABILITY PENSION BENEFITS

Currently, a participant who becomes totally disabled (as defined in the plan document) and has ten or more years of vesting service is entitled to a benefit calculated as if he or she were age 65 on the date benefits begin – that is, by applying the age-65 benefit multiplier to the contributions. Thus, the benefits are not actuarially reduced to reflect the fact that they are expected to be made over a longer period of time. The disability benefit is payable as a single life annuity with a 100-payment guarantee, or as a 50% joint-and-survivor annuity with a 60-month guarantee and a "pop-up" feature (as described in 2 above).

Effective for disabilities that occur on or after January 1, 2004, the disability benefit will be calculated based on the age-65 benefit multipliers (\$4.65 for pre-2004 contributions and \$3.50 for post-2003 contributions), and disability benefits that commence before age 65 will be actuarially reduced to reflect early commencement. The new disability benefit will be available as a single life annuity or a 50% joint-and-survivor annuity with no guarantee or pop-up features (as described in 2 above). Further, a participant who has additional contributions of at least \$50 in a calendar year after commencing a disability pension, but before reaching age 65, will be entitled to a regular pension benefit at age 65 based on those additional contributions only (the plan's formula for determining additional benefits payable at age 65 to early retirement pensioners who earn additional contributions after commencing a pension will not apply).

These changes will also apply to disabilities that occur before January 1, 2004 unless the participant files an initial application for a disability pension benefit before March 1, 2004 and completes the application process within 90 days after the application is received by the Fund office. **If you are already receiving a disability pension, this change will have no effect on your pension.**

Example 5A:

Paul becomes totally disabled on August 1, 2005 at age 53. Contributions on his behalf earned before 2004 total \$100,000 and contributions on his behalf earned after 2003 total \$15,000. Paul's age-65 regular pension benefit would have been \$5,175, comprising \$4,650 attributable to pre-2004 contributions ($\$100,000 \div 100 \times \4.65), plus \$525 attributable to post-2003 contributions ($\$15,000 \div 100 \times \3.50). Because Paul is commencing the benefit at age 53, the benefit is actuarially reduced to account for early commencement. Using the actuarial factors specified in the plan document, the monthly single life annuity amount is \$1,646.11 per month. If Paul had waited until age 55 and commenced an early retirement benefit at that age, his monthly benefit would have been \$2,522 per month ($(\$100,000 \div 100 \times \$2.33) \text{ plus } (\$15,000 \div 100 \times \$1.28)$).



6. BENEFITS EARNED BY WORKING PENSIONERS AGE 65 AND OLDER

Currently, benefits earned by working pensioners age 65 and older are calculated by applying the age-65 benefit multiplier to their post-age 65 contributions, even though they are also receiving benefits from the Pension Fund. The additional benefits earned in the calendar year in which the pensioner reaches age 65 (after the pensioner’s 65th birthday), and in each following calendar year, are added to the existing benefit effective July 1 of the year after the year in which the additional benefits are earned.

Under the new rules, additional benefits that are earned by working pensioners after age 65 will be reduced by the “actuarial equivalent” of the benefits paid during the previous calendar year, so long as those benefits were both earned and paid after 2003. Actuarial equivalence is a mathematical way of converting a benefit amount payable under one form of benefit to another amount payable under a different form of benefit so that the expected value of all payments under either benefit form is similar. For purposes of benefits you earn after age 65, it is a way to convert the arithmetic sum of the benefit payments you received in the prior year into an equivalent monthly benefit amount that would be payable over your future expected lifetime.

Example 6A:

Sheila, from Example 1C above, earns additional contributions in 2004 in the amount of \$4,500. These contributions will result in an additional monthly benefit of \$157.50 ($\$4,500 \div 100 \times \3.50) beginning July 1, 2005.

Sheila earns additional contributions in 2005 in the amount of \$3,000. Her additional monthly benefit commencing July 1, 2006 will be \$105 ($\$3,000 \div 100 \times \3.50) MINUS the actuarial equivalent of the six months of benefits she received in 2005 resulting from the 2004 contributions. The actuarial equivalent of this amount, \$945 (her monthly benefit of \$157.50 X 6 months) is \$7.19 per month expressed as a single life annuity, determined using factors currently specified in the plan document. Accordingly, her additional monthly benefit commencing July 1, 2006 will be \$97.81 ($\$105 - \7.19).

Example 6B:

Ryan begins to receive a pension payable as a single life annuity (with a guarantee applied to the portion of his benefit attributable to pre-2004 contributions) in December 2003 at age 65, in the monthly amount of \$300. In 2004, additional contributions are made on his behalf in the amount of \$4,000, resulting in an additional monthly benefit of \$140 commencing July 1, 2005 ($\$4,000 \div 100 \times \3.50). In 2005, he has additional contributions of \$5,000. His additional monthly benefit commencing July 1, 2006 will be \$175 ($\$5,000 \div 100 \times \3.50) MINUS the actuarial equivalent of the six months of benefits he received in 2005 resulting from the 2004 contributions, which is \$6.39 per month using factors currently specified in the plan document, for a net additional monthly benefit of \$168.61 ($\$175 - \6.39). In 2006, Ryan has additional contributions of \$600, which result in a monthly benefit of \$21 ($\$600 \div 100 \times \3.50) before applying the reduction. The actuarial equivalent of the \$2,691.66 of benefits he received in 2006 attributable to contributions earned in 2004 and 2005 ($(\$140 \times 12)$ plus $(\$168.61 \times 6)$), using factors currently specified in the plan document, is \$21.08 when expressed as a single life annuity. Because this amount exceeds \$21, Ryan will not receive any additional monthly benefit on July 1, 2007.

7. LUMP-SUM DISABILITY AND DEATH BENEFITS FOR NON-VESTED PARTICIPANTS

Currently, certain participants who become disabled before becoming vested are eligible for a \$2,000 lump-sum benefit. Similarly, beneficiaries of certain non-vested participants who die are eligible for a \$2,000 lump-sum death benefit (\$4,000 in the event of an accidental death). This disability benefit is being eliminated effective for all applications for disability benefits received by the Fund after 2003, and this death benefit is being eliminated for deaths after 2003.

If you are disabled and will have at least one year of vesting service as of the date you became disabled, and you have earned at least \$500 in covered earnings during the year you became disabled or the previous year, your application must be received by the Fund no later than December 31, 2003 for you to be eligible for a lump-sum disability benefit.



The foregoing notice is required to be furnished to you pursuant to Section 204(h) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and Section 4980F of the Internal Revenue Code. This notice also constitutes a summary of material modifications under Sections 102(a) and 104(b) of ERISA. The provisions of the plan document described in this notice, including both the current provisions and the changes to those provisions, only summarize the terms of the plan, which is available upon request from the Fund office. The terms of the plan document, not this notice, will be followed if there is any inconsistency between any provision of the plan and any provision of this notice.