BRIEF

The MPS "Action Plan" - an Analysis

Scott Ballantyne, Local 802 Tom Calderaro, Local 47

June 19, 2018

Abstract

A proposal to improve the situation of AFM-EPF plan participants by the MPS' actuary, Tom Lowman, is analyzed. The plan involves increased contributions, a three-year moratorium on benefit cuts and proposed changes to the board of trustees. We discover that the current behavior of the fund is already very close to that asked for by MPS, making this a lot of sound and fury, signifying nothing. Increasing contributions is a standard recommendation and not a bad one, but does not come for free to participants. We believe the moratorium is fiscally imprudent and could easily make our situation worse. The proposed changes to the board are shallow and do not deal with the governance issues shared by all multi-employer funds.

1 Who is the MPS?

"Musicians for Pension Security" was started by a group of New York-based musicians and has grown to have a national following. Based on their Facebook statistics, they have between 1,000-4,000 members and raise about $15,000/year from member contributions which they use to pay actuaries and lawyers.

2 What is the MPS Plan?

The MPS hired Tom Lowman, an actuary with Bolton Partners, Inc., to come up with a plan to repair our pension fund. They present it on their website with slides and a video of their meeting. The slides give a useful overview, but the audio of the presentation is difficult to hear. Fortunately, MPS also provides Mr. Lowman's letter to Adam Krauthamer which summarizes the plan and is the primary reference for this article.

Mr. Lowman agrees that if the situation at the fund continues unchanged, the fund will become insolvent. He proposes a multi-year plan:

2.1 First Three Years:

1. A moratorium on benefit cuts for three years.
2. Increase employer contributions to the plan by 6% a year over a five-year period (a 34% increase), dropping to 2.9% a year in year 6 and following.
3. Reduce fund administrative expenses by 10%.

Since the Lowman letter and plan presentation, MPS has clarified that the 6% increase is net of wages. In other words, since pension contributions are calculated as a percentage of wages if wages improved in a particular year by 2%, then the required pension contribution increase that year would only be 4%.

2.2 Fourth Year:

Assuming negotiations for increased employer contributions are successful, cut benefits by 18%, to continue indefinitely.

If negotiations prove to be unsuccessful, then Mr. Lowman recommends 28% benefit cuts, continuing indefinitely.

2.3 Scenarios

We've described the mathematics of pension funds in an earlier paper (you can read or download it from the AFM Perspectives website). We won't repeat ourselves here. In that paper, we pointed out that the AFM-EPF faces severe capital challenges and that each year which passes without either increasing the amount of cash entering the fund or decreasing the amount leaving it will make any future cuts worse. We see no reason to change that view today and Mr. Lowman's figures and discussion only serve to confirm it. He provides three scenarios:

Assuming we get a 6% employer contribution increase:

Cuts today would be 13%

Cuts in three years would be 18%

If we don't get the 6% employer contribution increase:

Cuts in three years would be 28%

Most people would probably prefer the 13% cut scenario. Perhaps ironically, that won't happen because it takes at least a year to get MPRA status from Treasury for a pension fund and that's a requirement for any benefit cut. Under the multiple assumptions that:

1. Mr. Lowman's figures are correct.

2. We obtain 6%/year employer contribution increases for five years.

3. We get MPRA status in one year.

The smallest cut possible in Mr. Lowman's view would probably be around 14.67%. And if we delay three years and don't get the contribution increases, Mr. Lowman believes we will have a 28% benefit cut.

3 Discussion

There are only two knobs that trustees can adjust in a pension plan: one is contributions (money coming in), and the other is benefits (money going out). Getting more money into the fund is always a great idea and would certainly help to prevent insolvency and possibly reduce required benefit cuts. Increasing employer contributions is the standard method for doing that. Mr. Lowman feels increases of 6% a year are reasonable based on a 2011 report from Milliman. Here are the figures from that report (page 3):

Table 1: Contribution history from Milliman 2011 Report

Year	Amount	Percentage Change
2003	$44,666,735	-
2004	$48,275,199	8.08%
2005	$48,869,306	1.23%
2006	$53,241,312	8.95%
2007	$56,879,951	6.83%
2008	$54,197,798	-4.27%
2009	$51,420,676	-5.12%
2010	$50,936,832	-0.94%

As you can see, when things were good, and the housing bubble was in full swing (2003-2007), the average contribution increase was 6.23%, indeed in line with Mr. Lowman's recommendation. Undoubtedly the global financial collapse in 2008 caused not only the stock market to collapse, but pension contributions as well. The average pension contribution increase for the years of 2003-2010 is only 1.89%, which is 35% below Mr. Lowman's required "maintenance" contribution of 2.9%. We don't have the data to be certain[1], but we believe that the cause of the 2008-2010 drop is from work lost due to the financial catastrophe and not from contract reductions.

We don't know why Mr. Lowman didn't use the available data from the forms 5500 to get a complete picture, but here are the total contributions from 2010-2016[2]:

[1] We have repeatedly requested wage and contribution data from the AFM-EPF, but they have refused to provide it.

[2] The amount for 2010 differs from the Milliman report because we include the rehabilitation plan surcharges and contributions.

Table 2: Contribution History from 5500's

Year	Amount	Percentage Change
2010	$51,566,506	-
2011	$55,734,886	8.1%
2012	$57,885,547	3.9%
2013	$61,213,724	5.7%
2014	$61,974,622	1.2%
2015	$63,799,631	2.9%
2016	$67,659,110	6.0%

This is an average yearly increase in contributions of 5.2%, only 0.8% short of Mr. Lowman's recommendation. It would be a great help if we knew the source of these increases since we could then have some idea of how sustainable they might be. There are several possibilities: increases in the amount of work, new benefit streams, wage increases or a negotiated increase in the amounts of employer contributions.

Regarding negotiating higher contributions, it's important to remember that these do not come for free. "Employer contributions" is a misleading term because they really come out of your pocket. Pensions are loans made by an employee to their employer. If you loan a friend five bucks, that's less money for you and employer contributions work the same way. Historically, musicians have given up wages or accepted reduced benefits in other areas in return for higher "employer contributions". Back then, with a benefit multiplier as high as $4.65 (the "interest" paid on your loan to the employer) and the protection against a default on your loan "guaranteed" by ERISA, this seemed like an acceptable risk. Today, the benefit multiplier "interest rate" is $1.00 and we have all learned that ERISA did not protect us against default.

In this environment, is it any surprise that younger musicians are reluctant to support increased "employer contributions"? People familiar with the matter have told us that recent symphonic contracts (which provide 50% of the funding of the pension) have generally kept pension contributions level in preference to increasing contributions to 403 type plans. This excellent article, by Peter de Boor of ICSOM, discusses these concerns from the symphony orchestra perspective. Even though 401(k) and 403(b) plans are retirement options which have been great for Wall Street but failed to deliver on their promises to retirees, given all the bad press about pension funds, we can certainly understand why younger players would find them more attractive than the AFM-EPF.

Also, people familiar with commercial work in the U.S. have expressed concern that increased employer contributions could potentially create competitive disadvantages which could lead to more non-union work or even lead to foreign work replacing U.S. commercial work. Even with higher negotiated amounts, this could cause a net decrease in contributions.

4 Our Recommendations

We agree that getting more cash into the fund is a great idea. We are already close to 6% yearly contributions, and if we can get that or higher, we are all for it. As we noted above, we think MPS and the AFM might have a hard time selling this option to the younger generation of players. We also support the 10% expense reduction at the fund, but we think it's important to note that any impact from this on the fund's health will be very minimal.

As far as the three-year moratorium on benefit cuts is concerned, we would like to point out that we are now at least two years away from MPRA status and any benefit cuts. In other words, we are 0.8% and one-year short of the MPS Action Plan. Given that the current state of the fund is so close to the MPS targets, you have to wonder why MPS is making such a fuss. If things continue as they have, we may not be eligible for MPRA next year, which will give us the three-year moratorium MPS wants, albeit an involuntary one.

Having said all this, we view a voluntary moratorium as a terrible idea. Even if negotiations for higher contributions are successful, we are only a lousy labor or stock market away from reduced work, which will lead to decreased contributions no matter what. It would not require a catastrophe such as 2008 to see employer contributions fall well below Mr. Lowman's 6% to 3% or even less. And it remains far from certain that current amounts are sustainable or that higher contributions can be negotiated. Any financial planner will tell you that making decisions today on an iffy hope that you might get some money tomorrow is a sure way to economic disaster for your family. The same is true of our pension fund. With the perfect (and not unlikely) storm of a voluntary moratorium and reduced contributions, our future benefit cuts could be much higher than 28%.

Since all parties now agree that benefit cuts are necessary to save the fund, the incredible irony of our situation is that as we continue to hover each year just above the levels required for us to be eligible for MPRA, these inevitable cuts only grow larger as our fund continues to hemorrhage cash.

5 Trustee Recommendations

MPS is also calling for the replacement of five members of the board of trustees to be replaced by "experts". Governance on multi-employer pension plans is a huge topic, and we feel the entire structure is flawed. Merely replacing trustees is not going to fix governance problems with our fund or any other. While we have been critical of specific actions taken by both current and past trustees, we do not agree that they are so egregious as to require replacement.

MPS also wants more "expertise" at the fund. We tend to the opinion that there is already a surfeit of expertise at the fund. We would be happier with less "expertise" and better judgment. As MPS has demonstrated with their "Action Plan", finding expertise is easy, good judgment is much more difficult.