Frequently Asked Questions

Oregon-Washington Carpenters-Employers Pension Trust Fund

Benefit Change Effective July 1, 2017

What is the new benefit formula?

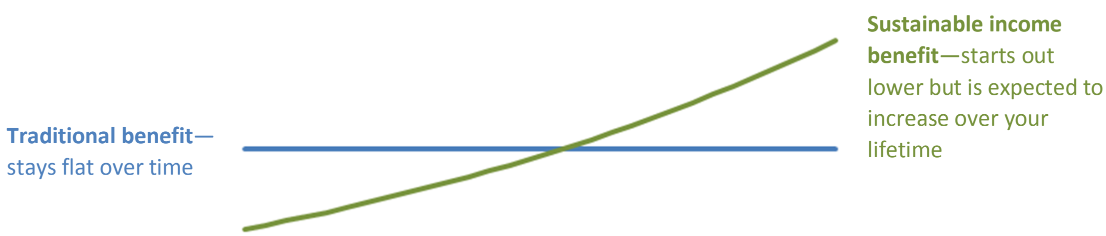
Like the current “traditional” benefit, the benefit you earn each plan year after June 30, 2017 is based on contributions:

Contributions that earn benefits *times* **the benefit rate** *equals* **the monthly benefit**

But after it’s earned, the new “sustainable income” benefit will be adjusted each year based on the Plan’s investment returns and is expected, but not guaranteed, to increase over time. That means during your working years, your benefit grows in two ways:

- It increases with the additional benefit you earn each year based on your contributory hours, and
- When the Plan’s investment returns are above 4%, your sustainable income benefit increases.

The benefit rate for the sustainable income benefit is lower than for the traditional benefit: 0.83% of accruing contributions for the sustainable income benefit, compared to 1.5% for the traditional benefit. But the sustainable income benefit is expected to increase over time – not only during your working years but also throughout your retirement, whereas the traditional benefit doesn’t change after you earn it.



Is the new sustainable income benefit lower than the current traditional benefit?

Yes. For now, the sustainable income benefit is lower than the current traditional benefit. Absent a significant increase in contributions, the benefit rate needs to be lower so the Plan is able to provide benefit increases when investment returns are above the “hurdle rate” (see “What is a ‘hurdle rate’?” below) and to build a “stabilization reserve”— a rainy-day fund that may be used to shore up benefits when investment returns are below the hurdle rate.

And it’s important to keep in mind that we’re making this change because we believe the traditional benefit is not sustainable long term. Already, a significant portion of contributions to the Plan do not earn new benefits and are dedicated purely to funding benefits earned in the past. A future downturn – or even just lower-than-expected investment returns over time – could set the Plan’s funding back even further. <u>With the sustainable income benefit, we’re “buying” the benefits we know we can afford based on the Plan’s actual investment returns</u>.

The sustainable income benefit has the potential to be better than the traditional benefit:

- Investment returns above 4% (and through 10.24%) increase benefits
- The bargaining parties may be more willing to increase contributions for new benefits because they don’t have the risk of new underfunding

- If the stabilization reserve becomes larger than needed, ad hoc benefit increases could be made
- Over time, as sustainable income benefits become a larger portion of the Plan's total benefits, the Plan as a whole will be better funded and benefits will be more secure.

Why can't we just stick with the traditional benefit formula?

There are only two ways that pension plans can get the money needed to pay out benefits – (1) contributions (which are bargained and can't be changed easily) and (2) earnings on investments.

Contributions *plus* **investment earnings** *equals* **money available to pay benefits**

The Plan's investments are a critical part of building benefits. When the Plan has poor-return years (or, a number of them, as we've experienced over the last couple decades), the Plan loses funds that it has to replenish somehow. In fact, the Plan's funding falls behind any year it doesn't earn at least the 7% that is needed to fund the traditional benefits. For example, if the Plan earns 5% for a year, that may seem okay. But actually that 5% return is 2% short of the 7% needed, and the longer it takes to make up that 2%, the more the make-up dollar amount grows.

That's why right now a significant portion of contributions coming into the Plan are funding benefits earned in the past, instead of building new benefits.

The funding situation for the traditional benefit is becoming more challenging, not less. Currently, the Plan is about 80% funded, which means it is in the "green zone" but still is not fully funded. And we've seen a number of other plans really suffer and have to pay out benefits at 33 cents on the dollar. We believe moving to the sustainable income benefit will help this Plan avoid that type of fate because it should be able to withstand the ups and downs of the market.

Will the new sustainable income benefit fix the Plan's underfunding?

Sustainable income benefits are designed to stay funded in all market conditions so the new design will not add to the Plan's underfunding.

But changing the benefits going forward won't immediately improve funding for the traditional benefits that have already been earned. We still need contributions dedicated to funding those earned benefits – and it's possible more may be needed in the future. Over the long-term, however, the sustainable income portion of the Plan will become larger, and the traditional portion of the Plan will become smaller, improving the Plan's funding status as a whole.

What is a "hurdle rate"?

A "hurdle rate" is the rate of annual investment return that results in the sustainable income benefit remaining the same as in the prior year.

The Plan's hurdle rate is 4%. So if the Plan's investments return 4% in a year, the sustainable income benefits stay the same as the prior year. If the Plan's investments return more than 4%, benefits increase (up to 6%, depending on the return).

Plan's investment return	Benefits go UP approximately
5%	1%
6%	2%
7%	3%
10%	6%
13%	6%

If the Plan's investments return 10.24%, the sustainable income benefits increase 6%. If the Plan's investments return more than 10.24%, the sustainable income benefit increase is capped at 6%, and the excess becomes part of the Plan's stabilization reserve.

If the Plan's investments return less than the 4% hurdle rate, the underlying sustainable income benefits decrease, but the Plan's stabilization reserve may be used to keep the benefit payments level for the year (in other words, shore up the benefit).

Why is the Plan's hurdle rate 4%?

By law, the Plan's hurdle rate cannot be lower than 3%.

A higher hurdle rate results in lower expected benefit increases over time, but higher initial accruals. A lower hurdle rate results in higher expected benefit increases over time, but lower initial accruals. Over the last 13 years, the Plan's investments have returned an average of about 6% per year. With a 4% hurdle rate, if the Plan's annual investment returns continue to average approximately 6%, benefit increases would average about 2% per year, providing some inflation protection.

Why is the benefit increase capped at 6% instead of higher, like at 10%?

The Plan's actuaries worked with the investment advisor and Trustees to determine a cap level that would balance benefit increases with the ability to build a stabilization reserve. A cap level well below 6% was expected to build more reserve than necessary and not allow benefits to increase as much in rising markets. A cap level much higher than 6% was expected not to build an adequate reserve. Capping annual increases at 6% will allow benefits to increase significantly during big return years without impairing the Plan's ability to build enough reserve to protect benefits in down markets.

Can I add my own money to the plan?

No. Just like before this change, the Plan does not allow for participant contributions.

Can I pick my own asset allocation?

No. There's no change in the way the asset allocation will be determined. The trustees work with the investment advisor to determine the best asset allocation for the Plan, balancing growth of assets and preservation of capital.

Can I still protect my spouse with my retirement benefit?

Yes. The forms of payment are not changing. With your spouse's consent, you can elect a benefit that is paid for just your lifetime, or you can elect a benefit that continues paying to your spouse after your death.

Do I have to do anything special when I retire now that I have two benefits (a traditional benefit and a sustainable income benefit)?

No. When you retire you'll receive your traditional benefit plus any sustainable income benefit you have earned. These benefits will be calculated separately and then added together for your total monthly benefit. The traditional portion of your benefit will remain fixed throughout your retirement, and the sustainable income portion will be adjusted once a year based on the Plan's investment return for the previous year.