Building Something New

Washington•Idaho•Montana
Carpenters•Employers Retirement Plan
As you know, the Pension Plan has – like many pension plans across the country – been suffering from the effects of a decade of challenging investment returns. The poor returns of 2000-2002 hit this Plan hard and 2008 was another blow. We’re making progress – the Plan was in the red zone, now it’s yellow.

It is on the path to recovery.

Right now, a significant portion of the contributions coming into the Plan are dedicated to repairing the underfunding of benefits that have already been earned. We’re committed to ensuring the Plan can pay out those benefits – that’s what the funding improvement plan is all about. But, no one is happy with the current situation. The benefits that are being earned today are small. Contributions have gone up significantly. And, a future downturn could cause more trouble.

"We need a Plan that is sustainable for the long run"

We need a Plan that is sustainable for the long run; one that can withstand the bad years in the market while taking advantage of the good ones. That’s why we’ve decided to move to what’s known as a sustainable income plan design on June 1, 2017.

The new benefit is still a pension and it still provides lifetime income. But, it has some important features that will keep these benefits funded in all kinds of market conditions – making it more certain that the Plan will be healthy and paying out benefits for many years to come.
Sustainable Income Benefit

The sustainable income benefit is a defined benefit plan that provides lifelong income – with a twist. The difference is that the benefits have the flexibility to move with the market.

- **Good investment returns increase benefits:** Over time your benefit is expected to grow and help protect your buying power from the negative effects of inflation – even in retirement. The Plan will have a “hurdle rate” of 4%. Each year that the Plan’s investments earn more than 4%, benefits go up.

- **Protection from market risk:** The flip side is that “underlying” benefits go down if the Plan earns less than the hurdle rate. But, the Plan includes a stabilization reserve that can be used to maintain benefits when the market takes a downturn. In the unlikely event the stabilization reserve runs out of funds, benefits will still be paid – but at the “underlying” benefit level.

- **Sustainable for the long haul:** The benefits are designed to stay funded in all market conditions – ensuring the money will be there to pay those benefits despite economic ups and downs.

Balancing Flexibility and Security

Sustainable income plans combine lifelong income with the flexibility to move with the market. The value of the underlying pension benefit you earn under the new formula will float with investment returns, but the high water mark benefit will be protected by the stabilization reserve. Plus, you continue to add on to your benefit each year that you work.

While the sustainable income benefit starts out lower than the fixed traditional pension benefit, it can catch up and continue to grow throughout your lifetime.

**Example:**

Mike is a retiree with a sustainable income benefit of $500 per month. The Plan has a 4% hurdle rate. If the Plan’s investments earn 9% for the year, Mike’s benefit will increase to $524.04 per month next year.

Mike’s benefit goes up by approximately the difference between the investment return and the hurdle rate. Here’s how the benefit is calculated:

\[
\text{\$524.04} = \text{\$500} \times \left(\frac{1.09}{1.04}\right)
\]

Each year, the benefit Mike earned changes with investment returns. That means Mike’s benefit has the potential to grow throughout his lifetime. If investment returns do not reach the hurdle rate, the Plan’s stabilization reserves would be used to keep Mike’s benefit from going down.

Protection When It Counts

The stabilization reserve is funded with a portion of the investment returns in years when returns are particularly high. It’s a built-in safeguard against benefit reductions. In the unlikely event that the stabilization reserve is exhausted, benefits would be reduced to the underlying benefit.

In the example to the right, we’ve shown one of the worst market drops occurring when this person is 78. You can see, even in that situation, their benefit is preserved.
The New Benefit Does a Better Job of Balancing Retirement Risks

Traditional Pensions – the Shrinking Buying Power of Fixed Benefits

The current traditional pension benefit provides lifelong monthly income. But, there’s still uncertainty in that fixed benefit.

The monthly check you receive may meet your needs when retirement begins, but how much will it buy 10 years later? Inflation can really reduce your buying power. As people are expected to live longer and spend more years in retirement, the difficulty of living on a fixed income increases.

By moving to a sustainable income plan design, we will reduce the Plan’s dependence on investment returns and dramatically cut the severity of future funding problems. This will make the Plan healthier, securing the ability of the Plan to pay promised benefits. This is good for current and future retirees.

The purchasing power of the traditional pension plan benefit decreases over time but the sustainable income benefits do a better job of keeping up with inflation.

401(k) Plans – How Long Do You Need to Make Your Money Last?

A 401(k) is on the other end of the spectrum. Your account balance goes up and down with your investment returns. Over time, your money can be just as powerful years into retirement as it was at the beginning because as inflation chips away at it, it continues to grow through investment earnings. But, you have to figure out just how much you can spend each year so that you don’t run out of money. If you spend it too fast, that source of income will be gone for good.
The Best of Both Worlds

The new sustainable income benefit formula combines the comfort of lifelong income (like the current benefit) with the potential for growth. The benefit will change with investment returns, but the stabilization reserve smooths out the ride (protection a 401(k) plan doesn’t provide).

Advantages

We’re excited about this change because it has several advantages for you and the Plan:

For You

• The new benefit gives you the security of lifelong income like the traditional pension benefit.

• Unlike the traditional benefit, the sustainable income benefit has the potential to help maintain your buying power and reduce the risk that inflation will eat away at your standard of living.

• Any new increases in contributions to the Plan will be used only for sustainable income benefits (as opposed to funding benefits earned in the past) and have a much higher benefit accrual rate than current contributions.

• You keep the traditional pension benefit you earn through May 31, 2017.

• You don’t have to start over when it comes to vesting in the new benefit.

For the Plan

• It puts the Plan on a more sustainable path, for a stronger future.

• New benefits are designed to stay funded at all times – that means new benefits won’t add unfunded liability to the plan.

• The Plan’s current Funding Improvement Plan will, over time, be able to clean up the unfunded liability that exists now.

• Going forward, each new dollar of contributions will be buying much higher benefits.

• The sustainable income benefits are always funded, so over the years as more of the benefits are under the new formula, the Plan’s funding will improve. This will eventually eliminate the need for using current contributions to fund benefits earned in the past and, hopefully, allow us to increase the accrual rate on the current contributions as well.

What will change and what won’t

Your Benefit

At retirement, you will receive both your traditional benefit and any new benefit you earn. The traditional benefit you have earned through May 31, 2017 will not go away, it just stops growing. And, going forward beginning June 1, 2017 you’ll earn benefits under the sustainable income formula.

Both benefit formulas provide monthly lifelong income. And, you will not have to start over with vesting (all of your vesting service counts for both the traditional and sustainable income benefits).

Contributions

The funding improvement plan (formerly the rehabilitation plan) will remain in effect – we still need to resolve our unfunded liability associated with benefits earned in the past and get that part of the plan back to 100% funded. The same portion of the existing contributions will go toward the unfunded liability. The portion of existing contributions that currently goes toward accruing benefits will go toward benefits in the new formula.

Any future contribution increases will go toward sustainable income benefits – and, at a much higher accrual rate.

Plan investments will continue to be professionally managed (you are not responsible for investment decisions).
Nothing Is Happening Right Away
We’ll make the transition effective June 1, 2017:

- You’ll continue to earn traditional benefits through May 31, 2017 (and when you retire, you’ll receive that benefit in addition to any sustainable income benefit you earn).

- You’ll start earning sustainable income benefits with hours worked on and after June 1, 2017.

There’s no reason to retire early in anticipation of this change. Nothing is happening to your traditional benefit.

This is only a high-level overview because we’re still working through the details. But, we wanted to let you know what’s happening since we have made the decision to move ahead.

More Information Coming in Early 2017
You’ll receive much more information on this change once all of the details are ironed out. We want to be sure you have the information you need to understand how the change may affect you.