Introducing Your New Sustainable Income Benefit

Washington•Idaho•Montana Carpenters•Employers Retirement Plan
Beginning with hours worked June 1, 2017, you will earn pension benefits under a new sustainable income formula. Read this guide for more information about what’s changing.
Effective June 1, 2017, the Pension Plan’s benefit formula is changing. You’ll keep the benefits you earn through May 31, 2017 under the current traditional formula; then, for hours worked on and after June 1, 2017, your pension benefits will be earned under the new “sustainable income benefit” formula. You’ll receive both benefits when you retire.

The new formula:

• Is still a pension and still provides lifetime income
• Offers the potential for benefit increases when the Plan has good investment returns (above 4%) – during your career and throughout your retirement
• Includes protection from poor investment returns with a rainy day fund that can be used to maintain benefits when there’s a downturn in the market
• Provides benefits that are designed to stay funded at all times, securing the Plan for the future
• Continues to have professionally-managed investments
• Has a much higher accrual rate for future contribution rate increases that happen on or after June 1, 2017

Changing to the sustainable income benefit formula puts the Plan on a more sustainable path. We still need to fix the Plan’s current underfunding problem – the funding improvement plan remains in place and the same level of current contributions will continue to go toward fixing the funding of the traditional portion of the Plan. But, because the new benefits should stay fully funded they don’t carry the risk of adding to the Plan’s funding troubles.
What’s Changing

• For hours worked beginning June 1, 2017, benefits will be earned under the new sustainable income formula.

• During your working years, your sustainable income benefit grows in two ways: with the additional benefit amount you earn each year and, on top of that, with good returns on the Plan’s investments.

• Once you are retired, your sustainable income benefit will continue to change with the Plan’s investment returns.

• At retirement, you’ll receive both your traditional benefit earned through May 31, 2017 and your new benefit earned on and after June 1, 2017.

• The number of years required for vesting is decreasing from five years to three.

• The factors used to calculate early retirement benefits for the sustainable income benefit are improved.

What’s Not Changing

• You keep the traditional benefit you have earned through May 31, 2017.

• You don’t have to start over when it comes to vesting – your combined hours count for both the traditional and the sustainable income benefit.

• The Plan’s investments continue to be professionally managed – you are not responsible for investment decisions.

• Like the traditional benefit, the sustainable income benefit provides lifelong income.
Sustainable Income Benefit Formula

The sustainable income benefit formula has two parts. That’s because the funding improvement plan (formerly the rehabilitation plan) is still in effect and will continue to be for some time. We still need to resolve our unfunded liability associated with benefits earned in the past and get that part of the Plan completely funded.

Going forward, you will have one crediting factor that applies to the current contribution rate and another much higher crediting factor that applies to future contribution rate increases.

Because future contribution rate increases have not yet been negotiated, we can’t tell you exactly what those contributions will be. But, we can give you some examples to show what a big difference they will make.

Current Contribution Rate

For contributions negotiated through May 31, 2017:

Contributions (current contribution rate) × Crediting factor (0.15%) = Amount added to your monthly sustainable income benefit

Example:

For example, if you work 1,500 hours from June 1, 2017 through May 31, 2018 and your contribution rate (not including Funding Improvement Plan contributions) is $4.00, the benefit that you would earn for that year of service would be:

\[ 1,500 \times 4.00 = 6,000 \times \text{Crediting factor } (0.0015) = 9.00 \]

This amount (along with all of your other annual sustainable income benefit accruals) adjusts each year with the Plan’s investment returns. The resulting benefit can be paid starting at age 65 as a single life annuity. It will be adjusted if you retire early or choose another form of payment such as a joint and survivor benefit.
Future Contribution Rate Increases

The crediting factor will be much higher for any contribution rate increases taking effect June 1, 2017 or later:

**Contributions**  \( \times \)  **Crediting factor**  \( (1.00\%) \)  =  **Amount added to your monthly sustainable income benefit**

**Example:**

Now let’s assume an additional $1.00 contribution rate increase (not including Funding Improvement Plan contributions) is effective June 1, 2017. If you work 1,500 hours from June 1, 2017 through May 31, 2018, the sustainable income benefit that you would earn for that year of service would be much higher:

\[
1,500 \times $1.00 = $1,500 \quad \times \quad \text{Crediting factor} \quad (0.0100) \quad = \quad $15.00
\]

\[
1,500 \times $4.00 = $6,000 \quad \times \quad \text{Crediting factor} \quad (0.0015) \quad = \quad $9.00
\]

**Total $24.00**

You can see what a huge difference every dollar of new contributions will make!
Traditional Benefit Formula
As a reminder, under the traditional benefit formula the current crediting factor is currently 0.30%.

Example:
For example, if you worked 1,500 hours from June 1, 2016 through May 31, 2017 and your contribution rate (not including Funding Improvement Plan contributions) is $4.00, the benefit that you would earn for that year of service would be:

\[
1,500 \times 4.00 = 6,000 \times \text{Crediting factor} (0.0030) = 18.00
\]

The amount you accrue each year through May 31, 2017 is added to all of your other years’ accruals for your total traditional benefit.

This is the calculation for your basic retirement benefit paid starting at age 65 as a single life annuity. This amount is adjusted if you retire early or choose another form of payment such as a joint and survivor benefit.

Remember, when you retire you will receive both your traditional benefit and your sustainable income benefit. The traditional benefit will stay fixed in retirement, while the sustainable income benefit will continue to change with investment returns throughout your life.
Benefits Are Adjusted Each Year
The way the sustainable income benefits stay funded is that the underlying benefits adjust with the Plan’s investment returns – both up and down. The sustainable income benefit has a hurdle rate of 4%. Each year the underlying benefit goes up, down or stays the same based on whether investment returns are greater than, less than or equal to the hurdle rate.

If investments earn more than 4%, the benefit goes up with a maximum increase of 6% per year. If investments earn less than 4%, the underlying benefit goes down.

Rainy-Day Fund Adds Protection Against Poor Investment Returns
To reduce the impact of investment downturns, the Plan will build a stabilization reserve that can be used to prevent your sustainable income benefit from dropping whenever the underlying benefit is below the high water mark.

In years when investment returns are particularly high (above 10.24%), benefit increases will be limited to 6%. Those excess returns, plus some contributions, will build the reserve.

The following graph shows how this would work for a carpenter based on the investment returns from 1971-2016, and assuming he or she earned the traditional benefit until age 43 and the new sustainable income benefit after that.

The grey bars show the traditional benefit earned through age 43. Layered on top of that is the underlying sustainable income benefit (orange bars). You can see how the stabilization reserve (green bars) is used to keep the benefit from dropping when investment returns are below 4%.

Although it is unlikely, if the stabilization reserve is not sufficient, the underlying benefit would still be paid (the total of the grey and orange bars for that year, but not the green bar).

In no case will this adjustment increase the benefit by more than 6%. When returns are greater than 10.24% (1.1024/1.04 - 1 = 6%), the benefit increase will be 6% and the returns in excess of 10.24% will be used to build reserves to be used in the future.
Example:
Tom is a retiree with a sustainable income benefit of $1,000.00 per month. If the Plan’s investments earn 9%, Tom’s underlying benefit will increase to $1,048.08 per month:

\[
\text{Underlying benefit} \times \frac{(1 + \text{investment return})}{(1 + \text{hurdle rate})} = \frac{$1,000.00 (1 + 0.09)}{(1 + 0.04)} = $1,048.08
\]

The next year, if the Plan’s investments earn 4%, no adjustment is made to Tom’s underlying benefit:

\[
\text{Underlying benefit} \times \frac{(1 + \text{investment return})}{(1 + \text{hurdle rate})} = \frac{$1,048.08 (1 + 0.04)}{(1 + 0.04)} = $1,048.08
\]
Let’s say the year after that the Plan’s investments earn 1.0%, Tom’s underlying benefit will decrease to $1,017.85 per month:

\[
{\text{Underlying benefit}} \times \frac{(1 + \text{investment return})}{(1 + \text{hurdle rate})} = \frac{(1 + 0.01)}{(1 + 0.04)}
\]

\[
$1,048.08 \times \frac{(1 + 0.01)}{(1 + 0.04)} = $1,017.85
\]

However, $30.23 per month from the stabilization reserve can be used to shore up Tom’s high water mark benefit so he will continue to receive $1,048.08 per month. The stabilization reserve would be used until his underlying benefit got back up to the high water mark.

Tom will also receive the traditional benefit he earned through May 31, 2017. The traditional portion of his benefit does not change.
Here are a few key points about how the traditional and sustainable income benefit formulas compare:

- Looking at current contributions only, the crediting factor for the sustainable income benefit is lower than for the traditional benefit because the sustainable income benefit is both more secure and is expected to grow over time – even in retirement.
- The sustainable income benefit formula has two parts – one for current contribution rates and one for future contribution rate increases that take effect on June 1, 2017 or later.
- The sustainable income benefit crediting factor is lower for current contribution rates, but it’s much higher for future increases – much higher even than the current traditional benefit.

“The sustainable income benefit crediting factor is lower for current contribution rates, but it’s much higher for future increases.”
Example 1

Scott is new to the Plan. He hasn’t earned a traditional benefit – all of his benefits will be sustainable income benefits. He works for 35 years in the Plan and retires at age 65.

This example assumes that Scott works 1,500 hours per year and that his “current” contribution rate (not including Funding Improvement Plan contributions) is $4.00. We’ve also assumed the Plan’s investments earn 7.3% every year (in reality, the benefit will depend on actual investment returns). This example shows the benefit as a single life annuity (the amount would be adjusted if he retired early or chose another form of payment such as a joint and survivor benefit).

At age 65, Scott’s benefit is $581. At age 80, it has increased to $928. However, if an additional $1.00 contribution rate increase goes into effect June 1, 2017, Scott’s benefit would be higher. At age 65, it would be $1,548 and at age 80 it would be $2,474.

The sustainable income benefit is expected to increase over time with investment returns. Because Scott will have many years for his benefit to grow, he is expected to be better off under the new benefit than he would have been under the traditional benefit – even in the absence of future contribution rate increases.
Example 2
Beth is in the middle of her career when the sustainable income benefit starts. She has 15 years under the traditional benefit and then 20 years under the sustainable income benefit and retires at age 65.

This example assumes that Beth works 1,500 hours per year and that her “current” contribution rate (not including Funding Improvement Plan contributions) is $4.00.* We’ve also assumed the Plan’s investments earn 7.3% every year (in reality, the benefit will depend on actual investment returns). This example shows the benefit as a single life annuity (the amount would be adjusted if she retired early or chose another form of payment such as a joint and survivor benefit).

At age 65, Beth’s total benefit (grey and dark orange bars) is $552. At age 80, it has increased to $704. (The traditional benefit piece of these total benefits is $298. The $298 stays fixed throughout her retirement.)

However, if an additional $1.00 contribution rate increase goes into effect June 1, 2017, Beth’s benefit would be higher. At age 65, it would be $975 and at age 80 it would be $1,380. (Again, the traditional benefit piece of these total benefits is $298 and stays fixed throughout her retirement.)

Whether or not Beth is better off under the new benefit depends in large part on how the Plan’s investments do and whether or not new contribution rate increases are added. If the Plan’s investment returns are less than expected and/or future contribution increases are delayed, Beth’s sustainable income benefit will not be as large. However, the new benefit should remain fully funded, meaning there will not be a need to have additional contributions go toward improving the funding level for the sustainable income portion of the Plan.

*In this example, past Plan crediting factors are used along with representative past contribution rates.
Example 3

Roger is 60 when the sustainable income benefit starts. He has 30 years under the traditional benefit and then 5 years under the sustainable income benefit and retires at age 65.

This example assumes that Roger works 1,500 hours per year and that his “current” contribution rate (not including Funding Improvement Plan contributions) is $4.00.* We’ve also assumed the Plan’s investments earn 7.3% every year (in reality, the benefit will depend on actual investment returns). This example shows the benefit as a single life annuity (the amount would be adjusted if he retired early or chose another form of payment such as a joint and survivor benefit).

At age 65, Roger’s total benefit (grey and dark orange bars) is $1,576. At age 80, it has increased to $1,605. (The traditional benefit piece of these total benefits is $1,526. The $1,526 stays fixed throughout his retirement.)

However, if an additional $1.00 contribution rate increase goes into effect June 1, 2017, Roger’s benefit would be higher. At age 65, it would be $1,658 and at age 80 it would be $1,737. (Again, the traditional benefit piece of these total benefits is $1,526 and stays fixed throughout his retirement.)

You’ll notice a bend in the traditional benefit in the chart above. That represents the point at which the Trustees initially took action to improve the Plan’s funding. It shows the significant reduction in the accrual rate in 2003, when Roger was 46.

The majority of Roger’s benefit is made up of his traditional benefit earned before June 1, 2017. The sustainable income portion of his benefit will be smaller at age 65 than what he would have earned under the old formula. However, that piece is expected to continue to grow throughout his retirement.

You can see that before 2003 Roger benefited from accrual rates that were much higher than what carpenters earn today. Overall, his benefit is much higher than the benefit that most current workers can expect. And, by making this change, younger members have the opportunity to begin earning meaningful benefits and the Plan will be more sustainable for everyone – active members, current retirees, and soon-to-be retirees alike.

*In this example, past Plan crediting factors are used along with representative past contribution rates.
In general, the existing Plan rules will continue to apply to your traditional benefit earned through May 31, 2017, and some new rules will apply to your sustainable income benefit earned on and after June 1, 2017. When you retire, the two portions of your benefit (traditional and sustainable) will be calculated separately and then added together to determine your monthly benefit.

**Benefit Adjustment Date**
On November 1 every year, your accrued sustainable income benefit will be adjusted based on the prior Plan year’s investment returns (July 1 to June 30). Retirees will receive advance notice before their benefit changes on November 1.

**Vesting**
Currently, the earliest you can become vested under the traditional benefit is five years. This is improving with the introduction of the sustainable income benefit. If you work at least one hour on or after June 1, 2017, only three years will be required for vesting for both the traditional and sustainable income portions of your benefit.

The vesting credit you’ve already earned counts for both parts of your benefit. So, if you’re already vested in your traditional benefit (or have three years as of June 1, 2017), you will be immediately vested in any sustainable income benefit you earn.
Early Retirement

With the Carpenters Retirement Plan – like all defined benefit plans – your age when you begin receiving your monthly benefit matters. The benefit you earn is based on the notion that you’ll begin receiving monthly payments at “normal” retirement age – age 65. If you retire earlier, your benefit is adjusted by “early retirement factors” because the Plan expects that you will receive benefit payments over a longer period of time.

There is no change to the early retirement factors that apply to the traditional portion of your benefit. Different factors will apply to the sustainable income portion of your benefit. The sustainable income factors are better than the traditional factors.

<table>
<thead>
<tr>
<th>Retirement Age</th>
<th>Traditional Benefit Factors</th>
<th>Sustainable Income Benefit Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>37%</td>
<td>52%</td>
</tr>
<tr>
<td>56</td>
<td>40%</td>
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</tr>
<tr>
<td>65</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Example:**

Suppose José has a traditional normal retirement benefit of $600 and a sustainable income normal retirement benefit of $500. He retires at age 63. His early retirement benefit is:

- **Traditional benefit:** $486 = 81% x $600
- **Sustainable Income benefit:** $440 = 88% x $500
- **Total benefit in year of retirement:** $926 = $486 + $440

In retirement, the traditional portion of the benefit will remain fixed at $486 and the sustainable income portion will change with investment returns, as previously described.
Late Retirement
If you start your traditional benefit payments after age 65, your monthly retirement income is based on the accrued benefit you have earned as of the date your payment begins. Because you were eligible to start benefit payments at age 65, you have the option of either receiving a lump sum in the amount of any “missed” payments from age 65 to your actual retirement date plus interest, or an increased monthly benefit for life.

If you start your sustainable income benefit payments after age 65, you will not get “missed” payments with interest for the sustainable income portion of your benefits. The only option will be the increased benefit payable for life.

Joint and Survivor Factors
When you retire, you may elect a joint and survivor benefit which provides a reduced monthly benefit for your lifetime. Following your death, a percentage of your reduced monthly benefit amount is payable to your surviving beneficiary. The percentage is elected at the time you retire, and may be 50%, 75% or 100%.

The joint and survivor option assumes payments will be made over two lifetimes - your life and your beneficiary's life - rather than one. Therefore, the monthly benefit is reduced to be approximately equal in value to a single life benefit. The amount of the reduction is determined by factors, which vary depending upon your age and life expectancy, your beneficiary's age and life expectancy, and the percentage you elected.

There is no change to the joint and survivor benefit factors that apply to the traditional benefit earned before June 1, 2017 (please see the Carpenters Retirement Plan booklet for these factors).

For your sustainable income benefit, the Plan will use factors derived from the mortality table prescribed by the Federal government for plans with designs like the sustainable income benefit and a 4% interest rate - the hurdle rate for the sustainable income benefit. The resulting factors are recalculated by the Plan's actuary each year based on updates to the Federal government’s mortality table.

Contact the Plan Administration Office for more information about these factors.
Example:

From the previous example, José retires at age 63 and his wife, Ana, is 61. José elects a 75% joint and survivor form of payment instead of a single life annuity. This means that benefit will continue to José as long as he lives and if he dies before Ana, 75% of the benefit amount will continue to her until she dies.

His early retirement benefit under this form of payment is:

<table>
<thead>
<tr>
<th>Benefit Type</th>
<th>Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional benefit</td>
<td>$486 \times 0.8411 = $408.77</td>
<td></td>
</tr>
<tr>
<td>Sustainable income benefit</td>
<td>$500 \times 0.8596^* = $429.80</td>
<td></td>
</tr>
<tr>
<td>Total benefit in year of retirement</td>
<td>$408.77 + $429.80 = $838.57</td>
<td></td>
</tr>
</tbody>
</table>

In retirement, the traditional portion of the benefit will remain fixed at $408.77 and the sustainable income portion will change with investment returns, as previously described.

In the event that José dies before Ana, 75% of his benefit at that time will continue to be paid to Ana and the sustainable income portion continues to adjust each year. In the event that Ana dies before José, José's benefit increases to the amount that he would have received if he had chosen the single life annuity option and the sustainable income portion continues to adjust.

*The factor used for this purpose is updated annually and, therefore, will depend on the year you retire. This factor assumes that José retires in 2017.
Glossary of Key Terms

This guide uses terms you might not be familiar with or do not use on a daily basis. The glossary will help you as you read through the document.

**Accrual**
The monthly benefit amount you earn each year you work in covered service.

**Cap**
The cap is 6%. This is the maximum annual increase in benefits due to the investment return for the prior July 1 to June 30.

**Crediting factor**
The factor multiplied by the portion of contributions that earn benefits made on your behalf during a calendar year to determine the accrual:

\[
\text{hours} \times \text{hourly contribution rate} \times \text{benefit factor} = \text{annual accrual.}
\]

Please see page 7 for an example.

**High water mark benefit**
This is your highest sustainable income benefit amount paid to date.

**Hurdle rate**
The investment return threshold of 4% that must be reached to increase your underlying sustainable income benefit.

**Sustainable income benefit**
The portion of your accrued benefit earned on and after June 1, 2017 (as opposed to your traditional benefit earned through May 31, 2017).

**Stabilization reserve**
The money the Plan holds in reserve that can be used to increase or shore up your sustainable income benefit and protect it from going down following years with investment returns of less than 4%.

**Traditional benefit**
The portion of your accrued benefit earned through May 31, 2017 (as opposed to your sustainable income benefit earned on and after June 1, 2017).

**Underlying benefit**
The sustainable income benefit without the shoring up provided by the stabilization reserve.

**Vesting**
Your right to receive earned benefits after a specified amount of credited service in the Plan.