



CARPENTERS TRUSTS

of Western Washington

Health and Security Retirement Vacation Industry Fund

Date: December 13, 2017

To: Participants of the Carpenters Retirement Plan of Western Washington

From: Board of Trustees

Re: Important Information About Your Sustainable Income Benefits

As you probably know, beginning January 1, 2017 the Carpenters Retirement Plan began calculating benefits using a sustainable income benefit (“SIB”) formula. The Board of Trustees recently revised the formula so that adjustments to your SIB will be made annually on January 1 instead of on May 1. The purpose of this Notice is to advise you of the details and effect of the change.

A Review of How Your SIB is Determined

You accrue a sustainable income benefit each year you work in covered service beginning in 2017. The SIB formula takes three factors into account:

- **Benefit factor** – Under the SIB formula, the benefit factor is 0.87%.
- **Hourly contribution rate** – The hourly contribution amount is set by the collective bargaining agreement or contribution agreement that you work under. The portion that earns a benefit is currently \$3.54 per hour for most carpenters.
- **Number of covered hours you work** – The more hours you work in a calendar year, the greater your SIB.

Your SIB is expected to grow over time based on the Plan’s investment returns relative to 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 4% hurdle rate. The following formula illustrates how this change is calculated.

$$\text{SIB} \times \frac{1 + \text{Plan's Investment Return}}{1 + \text{Hurdle Rate}}$$

If investments earn more than 4%, the benefit goes up – with a maximum increase of 6% per year. To achieve the maximum increase, the Plan’s investment return must be 10.24% or higher. If investments earn less than 4%, there is a stabilization reserve which the Trustees can use to help prevent your SIB from dropping.

SIBs will be Adjusted on January 1 Each Plan Year

Under the initial SIB provisions, the SIB was adjusted each May 1 based on the Plan's unaudited financial reports for the prior year, with the first adjustment occurring on May 1, 2019.

- **Benefits will Adjust Each January 1.** Working together with the Plan's consultant and legal advisors, the Trustees refined the strategy by changing the day on which the SIB is adjusted to January 1 of each year. This date now coincides with both the Plan's financial reporting and benefit accrual periods. The change applies to all SIB amounts earned under the Plan from 2017 onward, with the first adjustment taking place on January 1, 2018.
- **Adjustment Based on Audited Returns for Plan Year Preceding Prior Year.** In order to adjust SIBs on each January 1 and use the Plan's audited financial reports, the Plan will adjust SIBs based on the Plan's investment return for the calendar year *immediately preceding* the prior year. For example, the SIB will be adjusted on January 1, 2018 based on the Plan's investment return for 2016. This first adjustment is sixteen months earlier than under the initial SIB design. The next adjustment will occur on January 1, 2019 and will be based on the Plan's 2017 investment return.

Example:

During the 2017 Plan Year, a participant accrued a SIB of \$55.00. On January 1, 2018, his SIB is adjusted for the Plan's market returns in 2016 relative to the Plan's 4% hurdle rate. The Plan's 2016 audited financials reflect a 5.13% return. Accordingly, this participant's SIB is adjusted as follows:

$$\$55.00 \times \frac{1 + 5.13\%}{1 + 4\%} = \$55.60$$

His 2017 SIB will next be adjusted on January 1, 2019, along with the SIB earned in 2018.

- **Special Rule for 2017 SIB.** To ensure that no participant's 2017 SIB is less than it would have been under the initial Plan provisions, the cumulative adjustment to the 2017 SIB for the investment adjustments that occur on January 1, 2018 and January 1, 2019 will not be less than 6%, regardless of the investment return in 2017 and 2018. This corresponds to the maximum annual adjustment that could have been made to the 2017 SIB on May 1, 2019 under the Plan's initial provisions.

Example:

On January 1, 2019, a participant's 2017 SIB is adjusted for the second time. Because of the special rule, the value of the participant's 2017 SIB benefit as of January 1, 2019 will be at least \$58.30 ($\$55.00 \times (1+6\%) = \58.30).

Given the 2016 investment return was 5.13%, if the Plan's 2017 investment return exceeds 9.05%, then the cumulative adjustment for January 1, 2018 and January 1, 2019 will exceed 6%, and the special rule for 2017 will be unnecessary.

The SIB the participant earns during 2018 will also be adjusted on January 1, 2019, but based on the Plan's 2017 investment return – not this special rule.

Effect of Change on SIB Benefits Earned After 2017. Because of the change in the timing of the benefit adjustments for the Plan's investment returns, your accumulated SIB amount earned for hours worked on and after January 1, 2018 at a given point in time may be smaller or larger than it would have been under the Plan's initial provisions.

If you have questions about this notice, please contact Carpenters Trusts: (800) 552-0635 or pension@ctww.org.

This notice contains an overview of the changes being made to the Carpenters Retirement Plan of Western Washington. The notice is provided in accordance with Section 204(h) of the Employee Retirement Income Security Act of 1974, as amended, and Section 4980F of the Internal Revenue Code of 1986, as amended. This notice also constitutes a summary of material modification to the 2012 edition of the plan booklet. A copy of the plan and plan booklet are available at ctww.org. You may also obtain a copy by writing to Carpenters Trusts of Western Washington at PO Box 1929, Seattle, WA 98111-1929.