Carpenters Retirement Plan of Western Washington

Questions & Answers (“Q&As”) Regarding the Current State of the Retirement Plan

<u>Introduction</u>:

The Board of Trustees (“Board”) of the Carpenters Retirement Plan of Western Washington (called the “CTWW Retirement Plan” or “Plan” in this document) is making these Q&As available to interested parties. Those parties include participants, employers and local unions. The questions addressed below are based on questions received by the Trustees and the Plan’s Administrator.

The Q&As are generally focused around the current state of the CTWW Retirement Plan in 2016, however, it also provides some background information about the events leading us up to this point. All of the answers provided in this document are based on current law and regulations. There is always a chance that those laws and regulations may change in the future.

Q1. Can you provide me with some background information about the CTWW Retirement Plan and how it is managed?

A1. *The CTWW Retirement Plan is a tax-qualified defined benefit pension plan that was established in 1960. As a multiemployer plan, it is a collectively bargained plan maintained by more than one employer, and a labor union. These plans are often referred to as "Taft-Hartley plans."*

The CTWW Retirement Plan is jointly administered and governed by a Board of Trustees, with labor and management equally represented. Whether a Management or Labor trustee, all trustees are required by a federal law governing retirement plans, known as “ERISA,” to act exclusively in the interest of the plan, its participants and beneficiaries, regardless of who elected or appointed the trustee. The Board of Trustees makes decisions about the Plan’s benefit structure. The bargaining parties negotiate a contribution rate and the Trustees translate that rate into a benefit. Decisions to increase benefits or change the Plan are also typically made by the Board of Trustees.

In multiemployer plans, the amount of the employer's contribution is usually set by a collective bargaining agreement that specifies the contribution amount (hourly rate paid per covered hour for each employee covered by the agreement) and further provides that contributions must be paid to the plan on a monthly basis.

The Trustees are also responsible for investment of the CTWW Retirement Plan’s assets. ERISA provides that plan assets must be invested prudently and solely in the interests of participants.

Q2. Does the Board of Trustees rely on guidance of others to help them manage the CTWW Retirement Plan?

A2. *Yes. Managing a multiemployer pension plan is a complicated endeavor, so the Trustees do rely on the knowledge, experience and expertise of professional advisors to help them with the many decisions that must be made. These professional advisors include:*

- ***Plan Administrator**: responsible for collecting contributions, maintaining participant records so that benefits can be credited and calculated, paying retirement benefits when due, assisting participants through the retirement process.*
- ***ERISA Counsel**: attorney that provides legal assistance to the Board to make sure the CTWW Retirement Plan remains in compliance with the IRS and ERISA rules and regulations.*
- ***Investment Consultant**: an investment consultant that advises the Board on appropriate asset allocation for the investment of Trust assets, and assists the Board in selecting professional managers to carry out the asset allocation selected. The investment consultant provides regular reports to the Trustees on the performance of the individual investment managers and the Trust as a whole, and monitors the investments to ensure ongoing compliance with the investment policy established by the Board of Trustees.*
- ***Plan Actuary**: the Plan actuary is responsible for performing an annual valuation of the CTWW Retirement Plan which compares the value of the benefit promises made to Plan participants (pension liabilities) to the Plan assets. The actuary will also evaluate whether the CTWW Retirement Plan's projected financial measures are expected to improve over time, or get worse, and when warranted, advise the Board on actions that can be taken to improve the Plan's outlook.*

Q3. Can you help me understand the "Certification of Status" that is filed by the actuary each year?

A3. *The Pension Protection Act of 2006 established an annual "certification" requirement for multiemployer defined benefit plans. The certification requirement is meant to be an early warning system for the Plan's trustees and the IRS. If deemed to be a status other than "Safe Status," also known as the "Green Zone," the Board of Trustees would be required to establish and adopt a formal plan to improve the ongoing financial status of the pension program.*

The PPA Certification requires that the actuary track two specific measures:

a) *The funded percentage (ratio of Plan assets to Plan liabilities), and*
b) *The FSA Credit Balance (a measure of the Plan's ability to meet ERISA's minimum funding requirements).*

A plan is certified as in Safe Status or in the Green Zone if the funded percentage is 80% or better as of the measurement date, and the plan is projected to have a FSA Credit Balance greater than $0 for the next 7 years (i.e., expected to satisfy the minimum funding requirements established by ERISA for at least the next 7 years).

The funded percentage measurement uses the "actuarial" value of assets (which allows for the smoothing of actual investment returns that differ from the expected return over a period of years). For the projection of the FSA Credit Balance, the Trustees provide input on future hours (based on projected industry activity) and the actuary assumes the Trust assets will earn a rate of investment return equal to the Plan's assumed rate (7.0% for the CTWW Retirement Plan) each year in the future.

<u>Since the effective date of the PPA Certification requirements, the CTWW Retirement Plan has always been certified as a Safe Status or Green Zone Plan.</u>

Q4. What other Certification Statuses are there and what happens if you are certified as something other than "Green Zone"?

A4. *In general, the other possibilities for a plan's Certification of Status include:*

a) *Endangered Status (Yellow Zone): funded percentage below 80% or a Credit Balance deficiency projected within 7 years;*
b) *Seriously Endangered Status (Orange Zone): both a funded percentage below 80% and a Credit Balance deficiency projected within 7 years;*
c) *Critical Status (Red Zone): a Credit Balance deficiency projected within 4 years, or within 5 years if the funded percentage is less than 65% (Note: there are other criteria that can result in a Red Zone certification, but these are the most common);*
d) *Critical and Declining Status (Deep Red Zone): projected to run out of money and not be able to pay benefits within 15 years, or 20 years (if certain other criteria are met).*

If a plan is certified in one of these non-Green Zone statuses, the Board of Trustees must establish and adopt a formal plan to improve the ongoing financial status of the pension program. The formal plan will often times call for specific increases in the contribution rates, and are ultimately subject to adoption by the bargaining parties through the collective bargaining process

Q5. If Yellow Zone, can the formal plan the Board of Trustees establishes reduce the benefits I have already earned?

A5. *No. Once a benefit is earned in a qualified defined benefit plan such as the CTWW Retirement Plan, that earned benefit amount, and all of the features associated with it (such as early retirement features like the Special Early Retirement and Rule of 80 Early Retirement) are generally protected from being taken away. This is referred to as the "anti-cutback rule."*

The Board of Trustees does have the ability to revise the value of benefits earned for hours worked in the future, after the change is adopted and following advance notice to participants. That can happen for a plan certified as a Green Zone plan as well.

Q6. What about Red Zone? Can the formal plan the Board of Trustees establishes reduce the benefits I have already earned?

A6. *In this case, the benefit amount you have earned cannot be reduced, however, some of the early retirement subsidies tied to those benefits are subject to being reduced or eliminated.*

Q7. So where does the CTWW Retirement Plan stand today? We have been hearing that the actuary reported the CTWW Retirement Plan is turning Yellow Zone and possibly Red Zone.

A7. *The CTWW Retirement Plan was certified as a Green Zone plan for the 2015 certification, which was filed with the IRS in March of 2015. As of January 1, 2015 (the measurement date for the 2015 certification) the Plan had a funded percentage of 82.5% and no FSA Credit Balance deficiency forecasted. The funded percentage was projected to dip slightly in the next 2 years, but remain over the 80% threshold, and improve over the longer term. These projections were predicated on the CTWW Retirement Plan achieving its 7.0% investment return assumption on the market assets during 2015 and all future years.*

The CTWW Retirement Plans assets earned a 1.83% (est.) return during the 2015 calendar year, which came up shy of the 7.0% long-term return assumption. This return resulted in forecasted results that were not as favorable. The 1.83% investment return for 2015 changed the projections for the 2016 Certification from Green Zone in all future years to:

- *Green Zone for 2016 and 2017*
- *Projected to go to Yellow Zone in 2018*
- *Projected to go to Red Zone in 2026*

The actuary also provided various options for keeping the CTWW Retirement Plan as a "Green Zone" plan, including adding contributions.

At the same meeting in which the Trustees reviewed the revised projections and the actuary's proposed options, the Trustees made a recommendation to the bargaining parties to increase the accruing contribution rate by $0.50/hour. As the Trustees do not have authority to change contributions, they must rely on the bargaining parties. The ***bargaining parties*** *ultimately agreed to allocate an additional $0.25/hour to the accruing contribution rate.*

The $0.25 additional contribution is an accruing contribution, so it will run through the accrual rate and you will earn additional benefits for this additional amount.

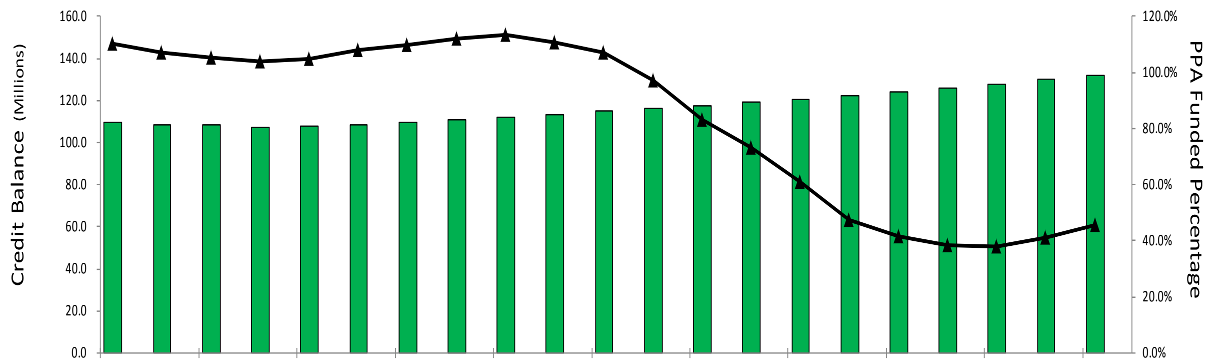
<u>The actuary has projected that the $0.25 is sufficient to keep the plan "safe" for all future years, assuming the 7.0% investment return assumption is achieved in 2016 and all future years.</u> *If the Trust investments do not produce a 7.0% return, then the CTWW Retirement Plan's projection results would differ from those shown. The projections after adding $0.25 are graphically illustrated below:*

Carpenters Retirement Plan for Western Washington

1/1/2016 PPA Projections Reflecting Allocation of Additional $0.25/Hour Effective 6/1/2016

Economic Inputs

Year Beg January 1,	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Market Value Return	1.83%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Accrual Rate	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Accruing Cont Rate	$3.01	$3.15	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25	$3.25
Non-Accruing Cont Rate	$1.84	$1.88	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90	$1.90
Hours (millions)	12.48	12.48	12.48	12.48	12.48	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.4	11.4	11.4	11.4	11.4	11.4	11.4



Credit Balance Jan 1,	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
2016 PPA Cert 2016 Rates	147.1	142.5	140.4	138.5	140.0	144.1	146.4	149.3	151.1	147.8	142.5	129.5	111.1	97.5	81.1	63.5	55.5	51.5	50.4	54.6	61.0	70.1
PPA Funded % (Bars)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
2016 PPA Cert 2016 Rates	82.5%	81.5%	81.2%	80.5%	80.8%	81.3%	82.2%	83.2%	84.1%	85.1%	86.1%	87.1%	88.2%	89.3%	90.5%	91.8%	93.1%	94.5%	95.9%	97.5%	99.1%	100.7%

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- ***<u>Accrual Rate</u>***: the Plan's rate (currently 1.5%) applied to the accruing contributions to determine the monthly retirement benefit earned for a particular year
- ***<u>Accruing Contribution Rate</u>***: the portion of the hourly contribution amount that gets multiplied by the Accrual Rate to create new direct benefits
- ***<u>Non-Accruing Contribution Rate</u>***: the portion of the hourly contribution amount that is applied towards Funding Improvement or Rule of 80 and does not create new direct benefits
- ***<u>Hours</u>***: the projected hours to be worked by members in future years (based on input from the Board)

Q8. What other actions has the Board of Trustees / Bargaining Parties taken since the market collapse in 2008?

A8. *The market collapse in 2008 hurt many multiemployer defined benefit plans, including the CTWW Retirement Plan. The CTWW Retirement Plan had a -20.91% return on its assets for the 2008 calendar year. Though many other pension plans did worse, that is small solace.*

The IRS provided some relief to plans by allowing the investment loss experienced in 2008 (relative to the +7.0% expected return) to be smoothed into the actuarial value of assets over 10 years instead of 5 years, and for the losses, once recognized, to be paid off (for ERISA's minimum funding requirements) over 29 years instead of 15 years. This relief bought more time for plans to recover, and the Board of Trustees adopted these relief provisions.

In addition to the relief provisions that "bought more time," the Board of Trustees recommended to the Bargaining Parties that a "funding improvement contribution" be implemented. The Bargaining Parties agreed to a $1.25/hour contribution increase that is non-accruing (i.e. does not run through the Plan's 1.5% accrual rate and therefore does not create direct benefit accruals) This contribution goes directly towards improving the ongoing funding of the CTWW Retirement Plan. This "funding improvement contribution" went into effect in 2009.

Additionally, as mentioned earlier, the Bargaining Parties have implemented a $0.25/hour increase in the accruing contribution rate effective June 1, 2016. While there is direct benefit earned by participants for this contribution rate increase, there is also some improvement in the ongoing funded percentage and FSA Credit Balance that will result from this change. The following table provides a historical look at the Plan's liability and asset measures from 1/1/2008 to present:

Carpenters Retirement Plan for Western WA
Accrued Liability v. Assets: 1/1/2008 to 1/1/2016
($ Millions)

	Accrued Liability (Gross)	Benefit Improvement Reserve	Accd Liab for PPA Cert & Notices	Market Value of Assets	Funded Pct. using MVA	Prior Year Mkt Value Return	Actuarial Value of Assets	PPA Funded Pct. using AVA
1/1/2008	$ 1,283.8	$ 32.9	$ 1,250.9	$ 1,139.9	91.1%	9.34%	$ 1,074.5	85.9%
1/1/2009	$ 1,352.8	$ 34.2	$ 1,318.6	$ 889.3	67.4%	-20.91%	$ 1,067.1	80.9%
1/1/2010	$ 1,410.8	$ 36.6	$ 1,374.2	$ 976.5	71.1%	10.35%	$ 1,171.8	85.3%
1/1/2011	$ 1,468.3	$ 39.2	$ 1,429.1	$ 1,076.5	75.3%	11.61%	$ 1,254.9	87.8%
1/1/2012	$ 1,523.8	$ 41.9	$ 1,481.9	$ 1,062.9	71.7%	1.04%	$ 1,275.5	86.1%
1/1/2013	$ 1,576.7	$ 44.8	$ 1,531.9	$ 1,153.5	75.3%	11.14%	$ 1,302.2	85.0%
1/1/2014	$ 1,668.8	$ 48.0	$ 1,620.8	$ 1,284.5	79.3%	14.38%	$ 1,343.1	82.9%
1/1/2015	$ 1,730.3	$ 51.3	$ 1,678.9	$ 1,329.5	79.2%	6.17%	$ 1,384.4	82.5%
1/1/2016 (est.)	$ 1,779.6	$ 54.9	$ 1,724.7	$ 1,319.9	76.5%	1.83%	$ 1,405.9	81.5%

Note: The 1/1/2014 Accrued Liability reflected a revision to modernize the mortality assumption, which added approx. $37.8M to the Accrued Liability

The Plan's actuary is also constantly monitoring the assumptions used in the annual valuation of the CTWW Retirement Plan to make sure they predict as closely as possible the Plan's experience. Effective January 1, 2014, the mortality rates used to evaluate how long benefits will be paid to retirees and beneficiaries was modernized to reflect generally improved life expectancy. This change increased the value of the CTWW Retirement Plan's liabilities, lowering the funded percentage.

Q9. Anything else? What about this Variable benefit design we are hearing about?

A9. *The Trustees have asked for more information on the Variable defined benefit design that was adopted by the Southern Alaska Carpenters in 2015. The Variable defined benefit design (referred to as the Sustainable Income Plan or "SIP") is a DEFINED BENEFIT PLAN, akin to the CTWW Retirement Plan. The current defined benefit plan would not be terminated. In fact, if the SIP is adopted, it would be part of the existing Plan.*

The Variable or SIP design would:

1) *modify the way that benefits earned in the future are calculated;*
2) *lock-in and protect the benefit amount and all of the early retirement features associated with the benefits earned prior to the change.*

If the Board of Trustees elects to move in this direction, you will receive information about how this plan design works.