

Building Stronger Benefits For The Future

We are fortunate to report that the Carpenters Retirement Plan of Western Washington is in the green zone – meaning the Plan is considered reasonably well funded. However, that doesn't mean the Plan is perfectly healthy or that it's protected from the conditions that have harmed other pension plans across the country.

There are many pension plans that were well over 100% funded before the dot-com bubble burst and the housing and debt crisis wiped out a significant amount of their funds. Already, a considerable portion of the contributions made to this Plan go toward funding benefits earned in the past instead of building new benefits.

The world was quite different when traditional pension plans were developed. The basic blueprint was good, but things have changed:

- There are fewer working carpenters than retired carpenters
- People are living longer, which means the Plan is paying out more in benefits than expected back when those retirees were earning benefits
- A decade of challenging investment returns means the Plan lost a lot of ground in terms of funding earned benefits
- For many years, the rules governing pension plans were restrictive.

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. Up until recently, there have been very few options available as the Plan has faced these challenges. In 2014, new regulations were published that allow us to make the Plan more sustainable. That's why we've decided to move to what's called a "sustainable income plan" design for benefits accrued on and after January 1, 2017.

The new benefit is still a defined-benefit pension and provides lifetime income. It also provides 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 pension with the flexibility to move with the market. Here are some important differences from the current plan design:



Good investment returns increase benefits:

Over time, if the Plan's investments do even modestly well, 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 4% "hurdle rate" - if the Plan earns 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. The Plan includes a "rainy-day fund" called 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 benefits despite economic ups and downs.

Moving to the sustainable income benefit will provide a Plan that has a smarter design for the future and will allow us to fully fund and protect the benefits that have already been earned more quickly.

“If the Plan earns more than 4%, benefits go up”

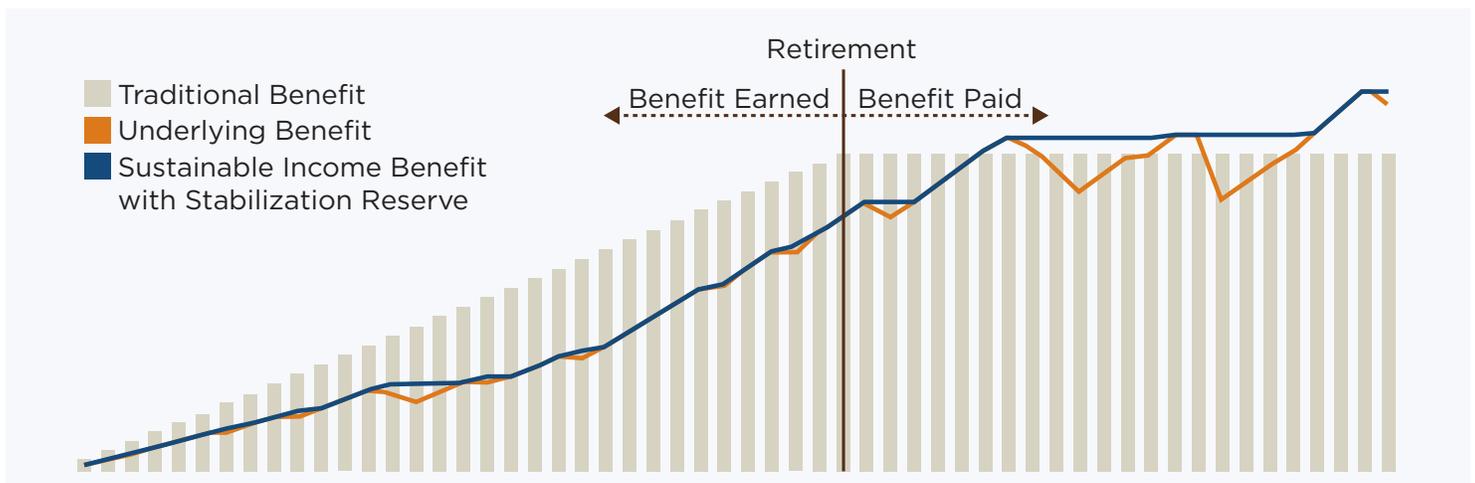


Balancing Flexibility and Security

Sustainable income plans combine lifelong income with the flexibility to move with the market. The value of the underlying benefit you earn under the new formula will float with investment returns, but the highest benefit paid (the “high water mark”) 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 will continue to grow throughout your lifetime.



Example:

Mike is a retiree with a sustainable income benefit of \$1,000 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 \$1,048.08 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 adjustment is calculated:

$$\$1,048.08 = \$1,000 \times (1.09 \div 1.04)$$

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 above, we've shown two major market drops in a row. You can see, even in that situation, the benefit is preserved.

The New Benefit Does a Better Job of Balancing Retirement Risks

Traditional Pensions – 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.

Defined Contribution Plans – How Long Do You Need to Make Your Money Last?

A defined contribution plan is on the other end of the spectrum. Your account balance goes up and

down with your investment returns. Your money could be just as powerful 10 years into retirement as it was at the beginning because as inflation chips away at it, it continues to grow through investment earnings. 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 (like a defined contribution plan). The benefit will change with investment returns, but the stabilization reserve smooths out the ride (protection a defined contribution plan doesn't have).

Advantages

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

For You

- The new benefit is still a defined-benefit pension plan and continues to provide the security of lifelong income (like the traditional pension benefit).
- Unlike the traditional benefit, the sustainable income benefit has the potential to maintain your buying power, reducing the risk that inflation will eat away at your standard of living.
- The rule of 80 (80 and out) remains intact.
- You keep the traditional pension benefit you earned through December 31, 2016.

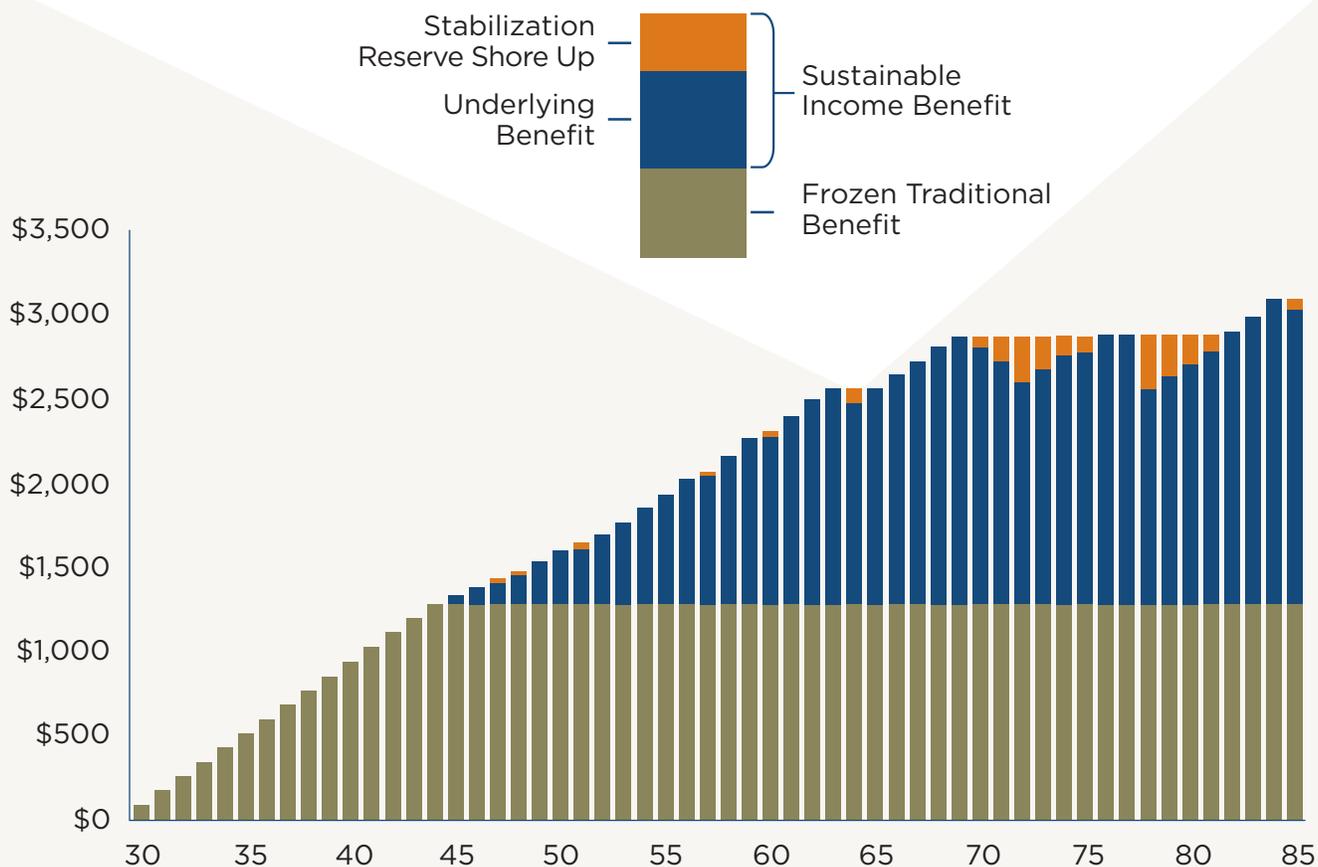
For the Plan

- 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 and, over time, the underfunding that currently exists will be eliminated.
- Funding will be more predictable and contributions will be less volatile.

How The Benefits Work Together

The traditional pension benefit that you have earned as of December 31, 2016 is not going away, but it will no longer grow. Effective January 1, 2017, you will begin earning benefits under the new benefit formula. When you retire, you will receive both your frozen traditional benefit and your new sustainable income benefit. You will not have to start over with vesting (all of your vesting service counts for both the traditional and sustainable income benefits).

The chart below shows an example of a frozen traditional benefit with the projected sustainable income benefit. In this example, the person was 45 when the traditional benefit was frozen and 65 when he retired. In addition, this shows a modest increase in employer contributions upon transition. The investment returns used for this example are returns for 1960 - 2015.



Join Us For An Informational Meeting!

This announcement has only a high-level summary of the upcoming changes. In November you'll receive more detailed information about how the new benefit works, and how you may be affected.

In the meantime, please join us at one of the following informational meetings where you can learn more and get your questions answered:

Date	Location	Time
October 13	Bellingham, Hampton Inn Fox Hall	6-8pm
October 14	Wenatchee, Labor Temple	6-8pm
October 17	Port Angeles, Red Lion Hotel	6-8pm
October 17	Seattle, Labor Temple, Hall 1	6-8pm
October 18	Bremerton, Baymont Inn	6-8pm
October 19	Renton, Local 30	6-8pm
October 20	Mt. Vernon, Best Western Plus Skagit Valley Convention	6-8pm
October 24	Aberdeen, Aberdeen Eagles	6-8pm
October 25	Everett Labor Temple, John Noble Hall	6-8pm
October 27	Lacey, SPS Carpenters Local 129	6-8pm
October 27	Yakima, Red Lion Yakima Center	6-8pm

