SOUTHERN ALASKA CARPENTERS RETIREMENT PLAN

April 30, 2019

PENSION PLAN UPDATE

Enclosed is the latest Annual Funding Notice (as required by the Department of Labor). It shows the Plan is 78.9% funded. That's as of January 1, 2018 (the funding notice shows the funded percentage as of the **beginning** of the Plan year that just ended). Also enclosed is a notice stating that the plan is a critical status for the 2019 plan year. Final numbers are not in yet, but we estimate that as of January 1, 2019 the Plan is approximately 77% funded. The decline is due to getting a return of about negative 5% in 2018 and extremely low hours in recent years.

- As of January 1, 2019 the Plan is considered to be in "critical" status.
- The Trustees are working on a rehabilitation plan and will share details as soon as it's finalized.
- You **will still be able to retire at age 60** with an unreduced benefit if you retire from active status and have been active in two of the last three plan years. But, there will likely be changes to some of the early retirement subsidies provided by the Plan and participants that haven't worked in two of the last three plan years will not be able to draw unreduced benefits until age 65.

Keep reading to learn more about these topics.

GETTING BACK ON TRACK

Whether the Plan is considered endangered or critical, the Board of Trustees needs to come up with a strategy to restore the Plan's financial health. For us, this is called a rehabilitation plan. The Board has until November to finalize the rehabilitation plan. However, we're working on it now and expect to be able to share the details with you in early summer.

The rehabilitation plan will likely include changes to "adjustable" benefits — benefits that are not part of the normal retirement benefits (such as early retirement subsidies).

Should I retire now? — the benefit you've accrued payable at age 65 is protected and the rehabilitation plan changes will apply to anyone who starts their retirement benefit on or after April 30, 2019. So, there is no significant advantage to retiring now.

WHAT IS NOT CHANGING

Here's what won't change:

- There will be **no change** to your accrued benefit payable at age 65
- There will be **no change** to the ability to take an unreduced benefit at age 60 for those who retire from active status
- There will be **no changes** for participants who retired and started benefit payments before April 30, 2019
- There will be **no changes** to how your sustainable income pension benefits are earned or how they work (these are benefits earned since January 1, 2015).

WHY IS THE PLAN IN CRITICAL STATUS?

A pension plan's status is determined based on its funded level and how soon it is expected to return to being 100% funded. You may remember that although the variable annuity benefit stays fully funded, it is still only a very small part of the Plan as a whole.

Our Plan has always been green (not in endangered or critical status). To be green, a Plan typically must be more than 80% funded and projected to become 100% funded over about 15 years. Our Plan is under 80% funded, and because of the poor returns in 2018, it is not projected to be 100% funded within 15 years. So, our Plan was going to be certified as endangered.

Not only was the Plan going to be endangered, it was also projected to enter critical status within the next 5 years. In this situation, the Board can choose to enter critical status now rather than remain endangered, and we did. It was not an easy choice, but because of the way the laws are written critical status gives us more flexibility and more options to create a better path to recovery for the Plan.

HOW WE GOT HERE

It doesn't feel like the plan should be in critical status with a funded percentage of 77%. However, the health of the Plan is judged by more than just the single point in time that is represented by the funded percentage. The actuaries also have to look at how the Plan is likely to perform over the next 5, 10 or 20 years. And, that's where our Plan is falling short. After a poor return in 2018 and lower hours expectations going forward, we are not getting to 100% fast enough.

- Pension plans build assets to pay benefits in two ways – through negotiated contributions and investment earnings. We have increased the negotiated contribution rates significantly over the years, which has helped to keep the Plan as well funded as it is. Recently though, the hours worked have been lower, which reduces overall contributions. Additionally, investment returns have been volatile and when investment earnings don't do well, the Plan's funding suffers. Missing the return assumption or hours expectation reduces funding and these dollars need to be made up. As our plan has gotten larger (more benefits earned) the amount that has to be made up is larger.
- The Plan requires a certain contribution level each year. You can think of this as a "bill" for the cost of benefits earned in a year plus a payment towards any underfunding that exists. The Plan's "bill" changes each year based on the Plan's funding and benefit levels. But contributions take a long time to change because they are based on collective bargaining agreements and multi-year job contracts.
- In years where contributions are more than the required contribution, the Plan builds up a "credit balance." It's like when you pay extra on your cell phone bill — the next month you can pay less because you have a credit, or you can pay your usual amount and roll that credit forward to use when you need it. In years where contributions are less than the required amount, the credit balance can be used to offset the contribution requirement.
- In our case, the credit balance is projected to drop significantly in the next several years — leaving the Plan without a cushion.

The bottom line is that critical status does not mean the Plan is expected to run out of money. However, the Plan is not paying off its underfunding as quickly as required. And in this situation, the law requires changes so that the Plan is expected to meet its contribution requirements in the future.

QUESTIONS?

We will provide details about the rehabilitation plan as soon as possible once it has been finalized (we anticipate early summer). In the meantime, if you have questions contact the Administrative Office at 907-561-7575 or toll-free at 800-478-4431.