

# **Rehabilitation Plan for the Southern Alaska Carpenters Retirement Plan**

**Effective May 15, 2019**

## **Introduction**

Federal law requires an annual actuarial status determination for multiemployer pension plans like the Southern Alaska Carpenters Retirement Plan (the “Plan”). A certification of endangered status or critical status requires specific action from the Plan’s Trustees to develop a plan to improve the funding of the Plan.

On March 29, 2019, the Plan actuary certified that the Plan was in endangered status and would be in critical status within five years. In this circumstance, the law allows the Plan’s Trustees to elect to be in critical status in the current plan year. The Trustees decided to use this option and elected for the Plan to be in critical status for the plan year beginning January 1, 2019.

A plan in critical status must develop and maintain a rehabilitation plan. A rehabilitation plan is comprised of one or more options (schedules) containing revised benefit structures, revised contribution structures, or both, which, if adopted, may reasonably be expected to enable the plan to emerge from critical status within the 10-year statutory rehabilitation period as defined by law and adopted by the Trustees.

The Plan will emerge from critical status when it is not projected to have a funding deficiency for the current year or any of the nine subsequent years. In order for the Plan to meet the requirements of the rehabilitation plan, the plan needs to project that it will emerge from critical status by January 1, 2031.

Throughout this document, the term CBA refers to collective bargaining agreements, master agreements, or other contracts. Additionally, the term “law” in this document refers to Internal Revenue Code section 432.

## **Effective Dates**

This rehabilitation plan is effective May 15, 2019.

The rehabilitation period for the Plan is the 10-year period beginning January 1, 2021 and ending December 31, 2030.

## **Summary of Rehabilitation Plan Options**

The rehabilitation plan consists of a Preferred Schedule and a Default Schedule. Details of these schedules, and the adoption process, are provided below. Each schedule is designed so that the Plan is projected to emerge from critical status by the end of the rehabilitation period.

The Board of Trustees designed the Preferred Schedule as the preferred balance of benefit reductions and contribution increases required to return the Plan to actuarial balance. While the collective bargaining parties may adopt either the Preferred Schedule or the Default Schedule, the Board of Trustees recommends that the bargaining parties adopt the Preferred Schedule. The benefit reductions reflected in the Preferred Schedule include reductions in “adjustable benefits,” as defined by law. Reductions in “adjustable benefit” are only available to plans in critical status.

Under the law, a rehabilitation plan must also include a Default Schedule. The Default Schedule does not include any reductions in “adjustable benefits.” Instead, the Default Schedule relies on additional contributions to return the Plan to actuarial balance. As a result, the additional contribution requirements are higher under the Default Schedule.

If the parties fail to adopt a schedule within 180 days of the expiration of their current CBA, the Default Schedule will apply. For the purposes of this paragraph, any CBAs in effect on May 1, 2019 that have automatic renewal clauses will be deemed to have expired on the day before the automatic renewal date of such CBA. Furthermore, any CBAs in effect on May 1, 2019 that are viewed as “evergreen” CBAs will be deemed to have expired on the day before the anniversary of such CBA.

It is also noted, that in the event the bargaining parties refuse to timely adopt a rehabilitation schedule, Article V, Section 1 of the Trust Agreement provides that the Board of Trustees have the authority to decline or terminate the participation of a particular bargaining unit if (1) the language of the contribution provisions in the collective bargaining agreement does not meet the requirements established by the Trustees (if any); (2) the negotiated contribution rate is lesser, or greater, than the contribution rate supporting a particular benefit plan then being administered by the Trustees; or (3) there exist other facts and circumstances that, in the Trustees’ discretion, justify a declination or termination of participation.

The details of the Preferred Schedule and the Default Schedule are provided as attachments to this document.

### **Rehabilitation Plan Standards and Annual Review**

A rehabilitation plan must provide annual standards for meeting the requirements of the Plan. Specific requirements for annual standards have not been defined under the law. The primary standard that the Trustees expect to measure each year is whether the Plan is still projected to emerge from critical status by the end of the rehabilitation period. The Trustees will also measure the Plan’s progress in terms of the Plan’s funding percentage and the Plan’s Funding Standard Account credit balance.

The Trustees will review the rehabilitation plan annually, and may modify it as appropriate, in order to meet the objectives of the Plan defined above. Notwithstanding any subsequent change in benefit and contribution schedules, a schedule of contribution rates provided by the Trustees and relied upon by the bargaining parties in negotiating a CBA shall remain in effect for the duration of that CBA.

The rehabilitation plan is based on the Plan’s reasonably anticipated experience and actuarial assumptions, as well as the assumption that the bargaining parties will adopt one of the schedules.

### **Potential Changes to Rehabilitation Plan**

The Trustees reserve the right to alter, change, and revise the rehabilitation plan, in whole or in part, in accordance with the law and any accompanying regulations issued thereunder. Any omissions and oversights will be interpreted in accordance with the applicable law and regulations.

The contribution rates provided under the Preferred Schedule or Default Schedule, whichever is adopted by the collective bargaining parties under the rehabilitation plan, will apply for duration of the CBA. If the rehabilitation plan is revised in a subsequent year, different contribution rates may apply after that time.

### **Emergence from Critical Status**

In general, a rehabilitation plan schedule must be constructed so that the Plan is projected to emerge from critical status by the end of the rehabilitation period. To emerge from critical status in any year, the Plan must not have a funding deficiency projected for that year or any of the nine subsequent years. Both the Default Schedule and the Preferred Schedule are constructed such that the Plan is projected to emerge from critical status by the end of the rehabilitation period.

### **Adoption of a Rehabilitation Plan Schedule in Master Agreement**

Collective bargaining parties subject to the Agreement between the Associated General Contractors of Alaska and the Pacific Northwest Regional Counsel of Carpenters, effective July 1, 2017, including any successor agreements, ("Master Agreement") shall be deemed to have adopted the Preferred Schedule upon the adoption of a memorandum of understanding (MOU) by the bargaining parties to the Master Agreement. If the collective bargaining parties of either a Master Agreement or stand-alone CBA do not adopt a schedule within 180 days of the expiration of the CBA in effect on May 15, 2019, the Default Schedule will be imposed, as required by law.

### **Interim Contribution Surcharges**

Effective for contributions beginning with June 2019 hours, an automatic contribution surcharge applies for employers who have not adopted a rehabilitation plan schedule as part of a CBA. The surcharge is 5% for reportable hours through December 2019, and 10% thereafter.

The contribution surcharge ends when an employer adopts a rehabilitation schedule. At that point, contributions are defined by the rehabilitation schedule.

Employers who have employees who participate in the Plan but are not covered under a CBA will pay contribution surcharges in the same manner on those employees as for all covered employees who contribute under a CBA.

### **Restrictions on Plan Changes While Critical**

While the Plan is in critical status there are certain restrictions on changes that can be made to the Plan. These include:

- CBAs cannot be accepted that adversely affect the Plan's funding. For example, new agreements cannot
  - Reduce the level of contributions for any participants;
  - Suspend contributions with respect to any period of service; or
  - Exclude directly or indirectly younger or newly hired employees from plan participation.
- Amendments cannot be passed that are inconsistent with the rehabilitation plan.
- Amendments cannot be passed that increase benefits, unless they are paid for with contributions not required for the rehabilitation plan.
- Contributions made in the past and future that are allocated as sustainable income plan reserves can be used to provide shore-up benefits in the event the Trustees adopt a Plan amendment authorizing a shore-up on sustainable income benefits, without additional contributions, assuming reserve contributions are sufficient to pay the shore-up payments.
- Amendments cannot be passed that increase the liabilities of the Plan, unless such amendments are required by law.
- The Plan cannot pay benefits such as lump sum or similar benefits (such as installment payments) and no annuity purchases can be made (mandatory cash-outs are okay). This section shall not apply to benefits under § 411(a)(11) which may be immediately be distributed without the consent of the participant or to any makeup payment in the case of a retroactive annuity starting date or any similar payment of benefits owed with respect to a prior period.

### **Assignment of Participants to a Rehabilitation Plan Schedule**

Active and inactive vested participants will receive Plan benefits under either the Preferred Schedule or the Default Schedule, depending on the assignment details below. Retirees are not

subject to the rehabilitation plan unless they return to work and are then treated as active participants.

In all cases, participants will be subject to only one schedule. The initial schedule to which they are assigned is permanent and will not change, regardless of any change in their status or employer.

*Assignment of Inactive Vested Participants and Non-Bargaining Unit Employees*

Participants who did not work at least 435 covered hours in the 2018 plan year will be considered inactive participants for purposes of the rehabilitation plan. Participants who are not covered by a collective bargaining agreement (associate employees) will be designated as non-bargaining unit participants.

The Trustees have the authority to adopt a rehabilitation plan schedule for these participants and have adopted the Preferred Schedule for these participants effective May 15, 2019. For this purpose, covered hours will include contiguous non-contributory hours with a participating employer, reciprocity hours, and hours granted for qualifying military service.

*Assignment of Active Participants to a CBA*

Participants who did work at least 435 covered hours in the 2018 plan year will be considered active participants for purposes of the rehabilitation plan.

Active participants will be subject to benefits based on the schedule adopted by the CBA under which they had the most hours in April 2019. Active participants who do not have covered hours in April 2019 will be assigned to the CBA under which they had the most hours in the last month they had covered hours.

*Previously Retired Participants*

Any participants or beneficiaries whose benefit commencement date is before June 1, 2019 or who submitted their retirement application before April 30, 2019 are treated as retired for this rehabilitation plan.

## Southern Alaska Carpenters Retirement Plan Rehabilitation Plan – Preferred Schedule

### Plan Benefit Changes

The following changes are effective for participants subject to the Preferred Schedule of the rehabilitation plan.

#### Change to early retirement reduction factors

There are no changes to the early retirement factors for the sustainable income benefits earned beginning January 1, 2015.

For benefits earned through December 31, 2014, the revised early retirement factors depend on a new “recency” test. Participants who work at least 435 covered hours in two of the three Plan Years prior to retirement (one of which is the year of retirement) fulfill the recency test.

Participants meeting the recency test will have early retirement factors that are lower than the prior factors, but still have unreduced retirement at age 60. Participants who do not meet the recency test will have factors that are reduced from age 65 and are a significant reduction from the prior factors.

Retirement Age	Factors applicable for participants who <b>do</b> fulfill the recency test	Factors applicable for participants who <b>do not</b> fulfill the recency test
53	72.5%	40.0%
54	76.0%	43.0%
55	79.5%	46.0%
56	83.0%	49.0%
57	86.5%	53.0%
58	91.0%	57.0%
59	95.5%	62.0%
60	100.0%	67.0%
61	100.0%	72.0%
62	100.0%	78.0%
63	100.0%	85.0%
64	100.0%	92.0%
65	100.0%	100.0%

Factors will be interpolated by age in months at retirement.

### Plan Contribution Increases

Following adoption of the Preferred Schedule, an additional \$0.54 non-accruing (i.e. funding improvement only) contribution will be added to the hourly pension contribution rate effective with all hours worked beginning with September 1, 2019. In the event contributions are owed for work on a project covered by a CBA and where the project is subject to federal, state, borough, city or other prevailing wage laws, such as the Davis-Bacon Act, the provisions of Title 36 Alaska Statutes or any other prevailing wage rules that include a wage freeze or wage lock for specific period of time, then the additional \$0.54 non-accruing contribution shall not be required until after the expiration of the wage freeze or wage lock on such project as determined under such prevailing wage laws.

The additional contributions described in this section are intended to solely improve the funded status of the Plan. No benefits will accrue on these additional contributions.

## **Southern Alaska Carpenters Retirement Plan Rehabilitation Plan – Default Schedule**

### **Plan Benefit Changes**

This change applies to all benefits, both those earned before and on and after January 1, 2015.

#### *Change in the pre-retirement death benefit*

For unmarried participants who die before retirement with a vested benefit in the Plan, the beneficiary does not receive 36 months of payments.

#### *Change in disability benefits*

For disability retirements on or after May 15, 2019, the Plan is amended to eliminate subsidized disability benefits for disability retirements at ages 53 and older. In addition, disability benefits before age 53 are now subject to actuarial equivalent reduction factors.

### **Plan Contribution Increases**

Upon adoption of the Default schedule, additional contributions are required of \$2.60 per hour beginning with the first of the month following ratification.

No benefits will accrue on the additional contributions.

The additional contribution is expected to continue through the rehabilitation period, and for a period of years after the rehabilitation period, so that the Plan is able to emerge from critical status and reach 100% funded. If Plan experience is favorable, the additional contribution may end at an earlier date.