September 2017

MCA
Mechanical Contractors Association
WESTERN WASHINGTON
and Signatory Contractors

The Washington State Plumbing And Pipefitting Industry Pension Plan

On The Path To A Plan That Won't Break

The Washington State Plumbing and Pipefitting Industry Pension Plan is in good financial health, but it has come at a cost – benefits being earned today are less than half the level they were in 2002 and over $1 of our current contribution rate funds benefits earned in the past instead of new benefits.

And, while those sacrifices have paid off and the Pension Plan is in good shape now, we are not immune from the challenges that have put so many other plans in trouble.

We need a plan that won't break – one that's designed to withstand whatever the future may bring. That's why we've decided to move to a "sustainable income" plan design effective January 1, 2018.

The new pension benefit formula still provides lifetime income. But, it has 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.

For a quick overview, watch the video posted at:

UA26.org

UAlocal32.com

UA44.org

UA598.com

It's Time For A **Change**

You may have read about the Central States Teamsters Pension Fund's application to cut retiree benefits. They're not the only ones – some Cleveland ironworkers' benefits are being cut by more than 50%. The list of plans that have filed applications to reduce benefits include teamsters, ironworkers, bricklayers, carpenters, furniture workers, automotive industry workers, and more. A recent study showed 25% of multi-employer pension plans are in critical status and 10% are projected to run out of money. Perhaps even more worrisome, the Pension Benefits Guaranty Corporation (the government agency that insures pension benefits) projects the multi-employer program is likely to run out of money in less than 10 years. People around the country are realizing that their pension benefits are guaranteed only to the extent that the plans are well funded – a guarantee doesn't mean much if the money just isn't there.

What happened to them could happen to us

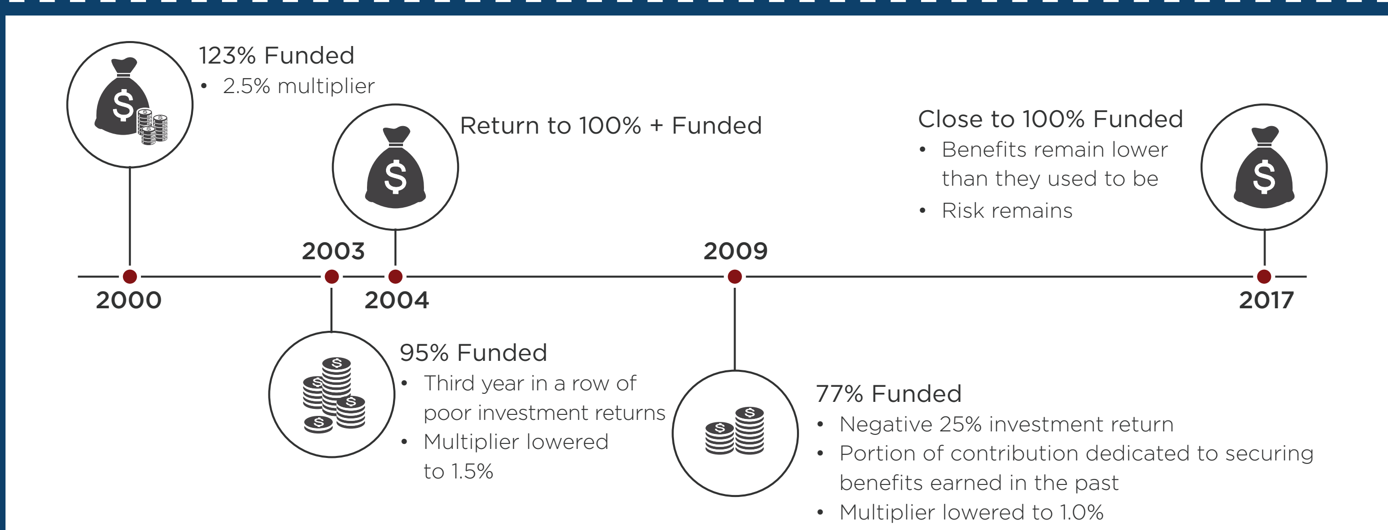
The State Pension Plan is currently in good shape. In fact, our Plan and our industry is better off than many others.

However, the troubles that so many multi-employer pension plans have faced over the last several years have revealed some structural problems. Our Plan is not so different from those others. What happened to them could happen to us.

Low Investment Returns Hit Hard

Today's pension benefit structure is very dependent on getting the expected investment returns and hours worked under the Plan. If returns and/or hours are low, we have a hole in the funding that has to be filled. That's always been true.

The difference now is that we've seen the effects that two major market downturns within 10 years and a slow recovery can have:



Many contribution rates have increased since the early 2000s, but in order to fill the funding shortfall caused by investment losses, our Plan has had to reduce the benefit accrual multiplier and divert over $1 of the contribution made on every hour worked to secure benefits earned in the past instead of earning new benefits.

That has had a big impact on the benefits being earned by active members. For example:

- In 2002, $5,220 in contributions produced a lifetime monthly benefit of $130.50.
- Now, for the same number of hours worked, the contributions are approximately $8,200 but it produces a monthly benefit of $61.74.
- And, the Plan needs to earn 6.5% on its investments and continue to meet expectations for man hours for the funding to work for that $61.74 benefit.

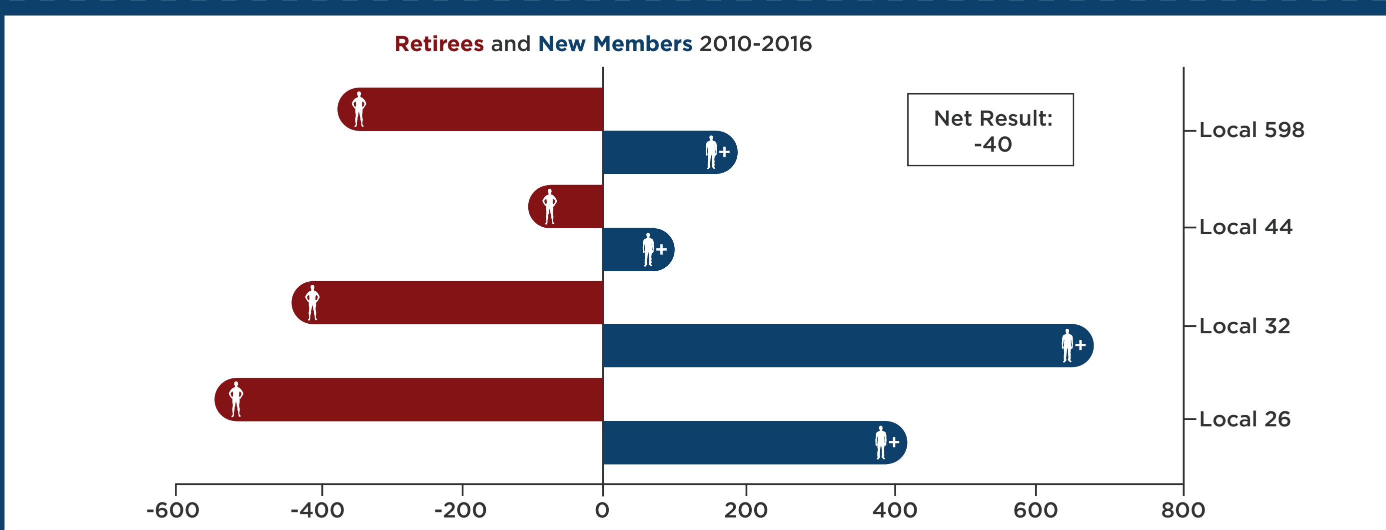
Members are earning smaller benefits. Employers are wary about negotiating more money. And the Plan, as it is currently structured, is one downturn away from another funding problem.

High Retiree To Active Member Ratio Puts The Plan At Risk

Over the last five years, new members have been offset by new retirees

Over the last five years, we've had a lot of new members join the Plan. But, those new members have been more than offset with the number who have retired. And, that's not even counting the folks who have a benefit but have left the trade before retirement.

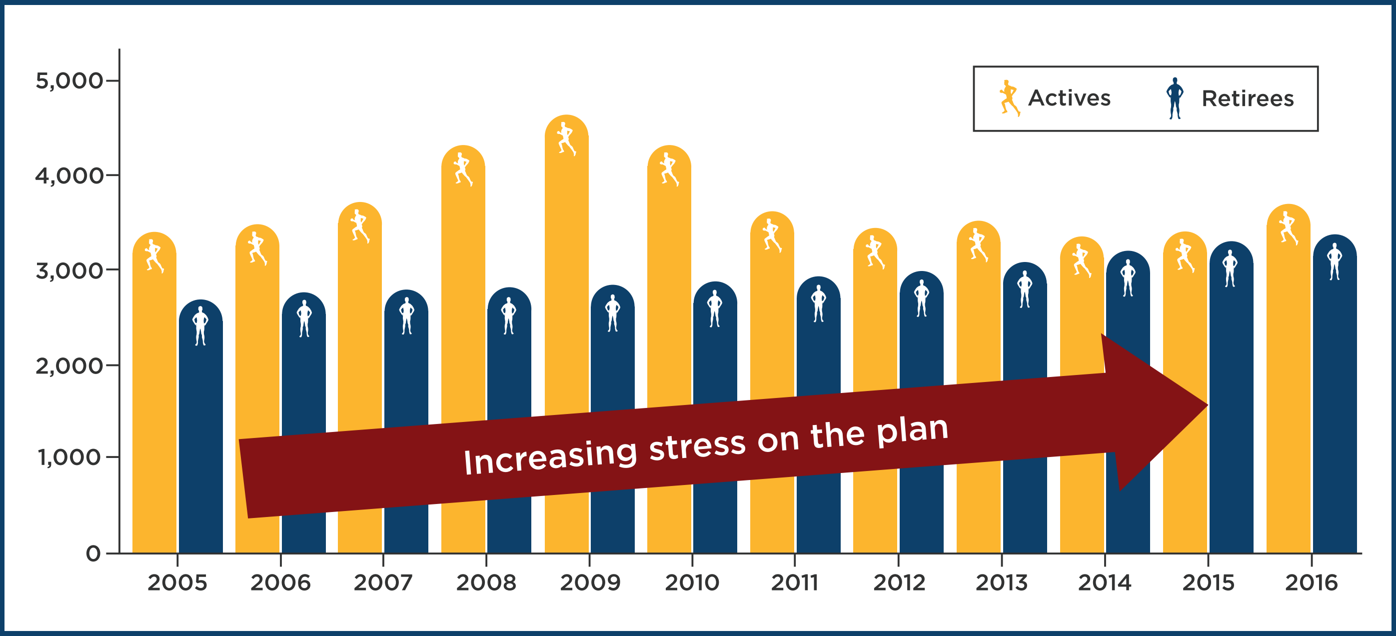
Pension benefits rely on contributions and getting a certain level of investment earnings (in our Plan's case, 6.5%). Even after an individual



retires or leaves the trade, their benefits can become underfunded if the Plan's investments don't meet expectations. Strong investment returns help, but it's unrealistic to expect the market can do it all. Active members must make up the difference. As the Plan has more retirees per active, this risk increases.

And, we have more and more retirees compared to active members. In fact, with over 100 retirements every year, retirees will soon outnumber active members in this Plan.

Moving to a sustainable income benefit puts us on the path to an extremely durable plan



More retirees compared to active members means:

- The potential size of any future funding hole we need to fill is larger (the more retirees the Plan has, the more dollars it has backing retiree benefits).
- For any given percentage investment loss, the loss in terms of the number of dollars is bigger (because the pot of money is bigger) and harder to pay for with contributions based on the hours worked by a relatively smaller group of active members.

Moving to a sustainable income benefit puts us on the path to an extremely durable plan – one that won't break no matter what the investment markets do and will continue to provide lifetime income for members.

What's Not Changing

The new formula still provides lifelong pension income. And while the formula is changing, we're leaving most other State Pension Plan features the same. For example, there are no changes to the Plan's early retirement subsidies and forms of payment.

Why Not...?

Why not just put our money in the Supplemental Pension Plan instead?

401(k) plans, like the Supplemental Pension Plan, were never designed to stand alone as a person's primary retirement plan. They were originally seen as a supplement to Social Security and pension income. When combined with a pension, they provide important spending flexibility in retirement and a way to help people save for retirement, but it can be difficult to manage if that's all you have.

Together, 401(k)s or other savings, pensions, and Social Security make a "3-legged stool" of retirement security. The stool needs all three legs to provide retirement stability.

Why don't we just increase contributions instead of changing the way the Plan works?

We've seen what has happened to many other plans in other industries when they have had to increase contributions again and again. It's not a sustainable way to solve the problem. It's difficult for both members and employers when contributions keep increasing but the benefits being earned are shrinking.

Sustainable Income Benefit

The sustainable income benefit formula provides lifelong pension income – with a twist. The difference is that the pension benefits will have the flexibility to move with the market.

- **Good investment returns increase benefits:** Over time your pension benefit is intended to grow and help protect your buying power from the negative effects of inflation – even in retirement. The Pension Plan will have a target investment return of 4%. Each year the Plan's investments earn more than 4%, the sustainable income benefits that you have earned to date will be dragged up. That means during your working years, your benefit grows in two ways: with the additional benefit amount you earn each year and, on top of that, with good returns on the Plan's investments.
- **Protection from market risk:** When the Pension Plan's investments earn less than 4%, benefits go down. However, the Plan will have a stabilization reserve that can be used to maintain benefit payments when the market takes a downturn. In the unlikely event the stabilization reserve runs out of funds, benefits would still be paid – just at the underlying benefit level.

  The stabilization reserve is funded through contributions and by putting a limit on benefit increases. In years when investment returns are particularly high (above 12.32%), all sustainable income benefits you have earned to that date will be increased by 8% and the remaining investment gains will be used to build up the stabilization reserve. The new benefit was designed to be very stable. In a test with 1,000 statistical runs the stabilization reserve never ran out.
- **Sustainable for the long haul:** The benefits are designed to stay 100% funded in all market conditions – ensuring the money will be there to pay benefits despite economic ups and downs, and without putting a burden on future generations.

The New Benefit Starts Out Lower But Is Intended To Grow Over Time

Changing the Washington State Plumbing and Pipefitting Industry Pension Plan benefit to the sustainable income formula is a sacrifice on the front end, but it's securing the benefit on the back end.

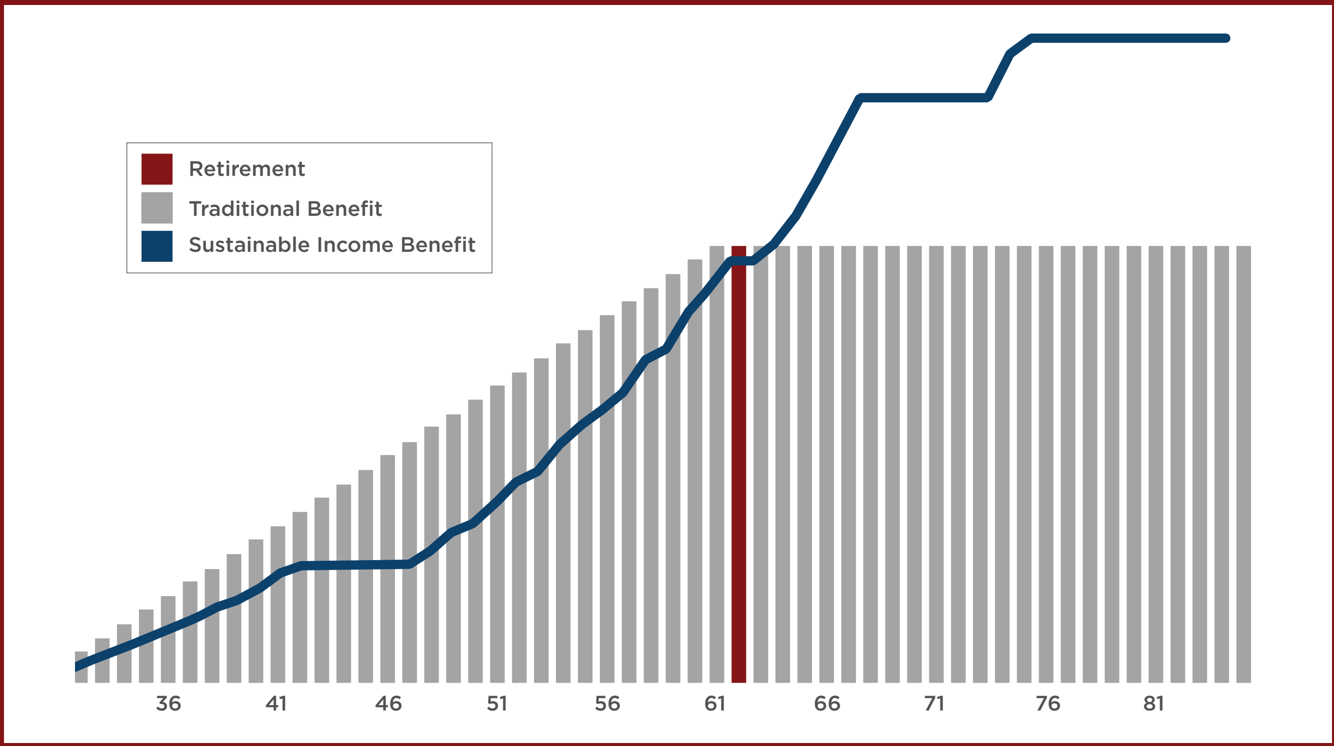
For the same cost, the sustainable income benefit accrual multiplier is lower than for today's pension benefit – 0.6% instead of the current 1.0%. That's because the sustainable income benefit is based on a much more reachable 4% investment return and is designed to automatically share investment returns above that in the form of benefit increases.

Sustainable income benefits stay fully funded because we'll "buy" benefits that we can afford based on the Plan's actual results (as opposed to promising benefits based on an educated guess about future investment returns – and then putting actives on the hook for making up the difference when investment returns don't meet the assumption).

If you compare both types of benefits starting at hire date and earned over a 30-year career, you can see that the sustainable income benefit starts out lower. However, it's intended to increase over time with good investment returns (even in retirement) and ultimately outpace today's benefit.

This illustration shows how the sustainable income benefit could have grown compared to the today's benefit, if they had started at the same time, using the Plan's actual investment returns from 1962 to 2015.

The sustainable income benefit is based on a much more reachable 4% investment return



The Math

The multiplier for sustainable income benefits related to the current contribution rate is 0.6%. As mentioned above, the benefit starts out lower but is intended to increase over time – even in retirement.

Contributions (Portion of contribution rate that earns benefits x hours)	X	Multiplier (0.6%)	=	Annual accrual
$6,175	X	0.006	=	$37.05

Multiplier Is Higher For Future Contribution Rate Increases

The multiplier will be 0.6% for the contribution rates that are in place now. But, for any new contribution rate increases, the multiplier will be 0.8%.

That translates into significantly higher benefits. For example, if we assume an additional $1.00 is added to the contribution rate:

Contributions	X	Multiplier (0.8%)	=	Annual accrual
$1,800	X	0.008	=	$14.40
		Plus, the accrual on the "old" contribution rate		
$6,175	X	0.006	=	$37.05
		Total annual accrual:		$51.90

You'll Get Both Benefits When You Retire

Once we switch to the sustainable income benefit, the pension benefit you have earned up to that point will not go away – it just stops growing. When you retire, if you are vested you will receive both the benefit you earn through December 31, 2017 and any new sustainable income benefits you earn beginning January 1, 2018.

And, you will not have to start over with vesting (all of your vesting service counts for both benefits). So, if you were vested before the switch, you are vested now.

How Sustainable Income Pension Benefits Grow

Sustainable income plans combine lifelong income with the flexibility to move with the market. While the sustainable income benefit starts out lower than the today's pension benefit, it can catch up and 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% target investment return. If the Plan's investments earn 9% for the year, Mike's benefit will increase by approximately the difference between the target and what the Plan actually earned to $1,048.08 per month next year.

Sustainable income benefit **times** (1 + investment return **divided** by 1 + 4%)

$1,000 x (1.09/1.04) = $1,048.08

Each year, the benefit Mike earned changes with investment returns. That means Mike's benefit has the potential to grow throughout his lifetime. If Mike's benefit would otherwise go down, the Plan's reserves are used to keep that from happening.

On The Path To A Plan **That Won't Break**

The sustainable income benefit gives us a way to:

- Eventually eliminate the need to use current contributions and/or increase contributions to fund benefits earned in the past.
- Reduce the possibility of benefit reductions in the future.
- Make the plan more secure and stable for the future.

Changing the new benefits doesn't fix the funding of the old benefits overnight. A portion of the contributions will continue to go towards securing the funding of the benefits earned in the past.

But, by design, the new benefits will always be 100% funded. And over time, the old benefits that have the potential to become underfunded will become a smaller and smaller part of the Plan as a whole – making the Plan more stable and secure.

Watch For More Information

You will receive more information in the coming weeks, including details about exactly how our Plan will work and how the change may impact you in late October.