Pension Benefit Change

Effective July 1, 2021

FAQs

Is the sustainable income plan benefit a pension?

Yes, the benefit determined under the new sustainable income plan benefit formula is a defined benefit pension that provides lifetime income.

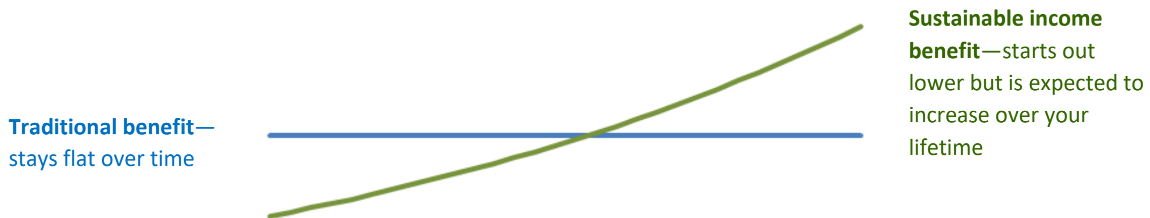
What is the sustainable income benefit formula?

Like the traditional benefit, you accrue a benefit under the sustainable income plan (SIP) benefit formula each year you're eligible and work at least 250 hours. Normally, the **accrual rate** will be 0.8% under the preferred rehabilitation plan schedule. However, to smooth the transition, the trustees were able to keep the accrual rate at 1.2% for hours worked July 1, 2021 – June 30, 2024.

Accruing Pension Contributions (portion of contribution rate that earns benefits X hours)	X	Accrual rate (1.2% for hours worked 7/1/2021 – 6/30/2024) (0.8% for hours worked 7/1/2024 and later)	=	Annual accrual

The normal benefit accrual rate for the SIP benefit is lower than for the traditional benefit – 0.8% for the SIP benefit compared to 1.2% for the traditional benefit. Unlike the traditional benefit formula, the SIP benefit has the potential to grow over time:

- Investment returns above 5% (and up through 13.4%) increase benefits.
- Good investment returns automatically increase benefits, so better-than-expected returns will mean higher-than-expected benefits automatically.
- When returns are poor, there is a stabilization reserve that can prevent benefit declines in retirement.
- If the stabilization reserve becomes larger than needed, ad hoc benefit increases could also be made.
- If the stabilization reserve runs out, underlying benefits will still be paid.
- Over time, as SIP benefits become a larger portion of the Plan's total benefits, the Plan as a whole will be better funded and traditional benefits earned in the past will also be more secure.



Why didn't we just stick with the traditional benefit formula?

There are only two ways that pension plans can get the money needed to pay out benefits – collectively bargained contributions and earnings on investments.

Contributions + investment earnings = money available to pay benefits

The Plan's investments are a critical part of building benefits. When investment markets fall, the Plan has to replenish that money somehow. That's why we've had to take action to improve the Plan's funding in recent years – 2011, the funding improvement plan in 2016, and the rehabilitation plan in 2021. And, a future downturn – or even lower-than-expected investment returns over time – could set us back even further.

We need a plan that can withstand the ups and downs of the market. With the sustainable income structure, the Plan is "buying" the benefits it can afford based on the actual investment returns of the Plan. And, the Plan is building a rainy-day fund to protect retirees' sustainable income plan (SIP) benefits against future market downturns. Plus, SIP benefits stay funded in all market conditions, even severe ones. This prevents having to "fix" funding problems in future downturns on the SIP portion of the Plan.

Over time, as sustainable income benefits become a larger portion of the Plan's total benefits, the Plan as a whole will be more secure.

Does moving to the sustainable income formula secure the "old" benefits?

Sustainable income benefits are designed to stay funded in all market conditions so the new design will not add to the risk of underfunding.

But changing the benefits going forward won't immediately protect the funding for the traditional benefits that have already been earned. We still need contributions going toward those benefits – and the rehabilitation plan that we've put in place to address the problem remains in effect. Over the long-term, however, the sustainable income portion of the Plan will become larger, and the traditional portion of the Plan will become smaller, providing more protection for the Plan's funding status as a whole.

Would I be better off in a 401(k) plan or an IRA?

401(k) plans and IRAs can play an important role in your retirement income by giving you spending flexibility in retirement and, if your investments do well, offsetting some of the negative effects of inflation. But, having a 401(k) or an IRA alone without the foundation of steady lifelong income would be difficult. In a 401(k) or an IRA, you're essentially a plan of one. If your plan loses money or doesn't meet expectations, you alone have to make that up (or live on less). You have to make all of the investment decisions. And, you alone have to figure out how much you can spend without running out of money in retirement.

The pension plan spreads all of those risks out. With the pension, you have the security of lifelong income. You may not have money left over to leave as an inheritance, but you won't run out of money either. Ideally, you would have a pension for steady income and your own savings for flexibility.

What is the "hurdle rate"?

The "hurdle rate" is the annual investment return for the Plan that results in the sustainable income plan (SIP) benefit remaining the same as in the prior year.

The Plan's hurdle rate is 5%. So, if the Plan's investments return 5% in a year, the SIP benefits stay the same as the prior year. If the Plan's investments return more than 5%, benefits increase (up to a maximum increase of 8%, depending on the return).

Plan's investment return	Benefits go UP approximately
6%	1%
8%	3%
10%	5%
13.5%	8%
15.5%	8%

If the Plan's investments return 13.4%, the SIP benefits increase 8%. If the Plan's investments return more than 13.4%, the SIP benefit increase is capped at 8%, and the excess becomes part of the Plan's stabilization reserve.

If the Plan's investments return less than the 5% hurdle rate, the underlying SIP benefits decrease, but the Plan's stabilization reserve may be used to keep the benefit payments level for the year (in other words, shore up the benefit).

Why is the Plan's hurdle rate 5%?

A higher hurdle rate results in lower expected benefit increases over time, but higher initial accruals. A lower hurdle rate results in higher expected benefit increases over time, but lower initial accruals. The assumption that is used to determine the funding needs of the traditional benefits is 6.5% per year. With a 5% hurdle rate, if the Plan's annual investment returns were 6.5% each year, benefit increases would be about 1.5% per year, providing some inflation protection.

Why is the benefit increase capped at 8% instead of higher, like at 10%?

The Plan's actuaries worked with the Trustees to determine a cap level that would balance benefit increases with the ability to build a stabilization reserve. A cap level well below 8% was expected to build more reserve than necessary and not allow benefits to increase as much in rising markets. A cap level much higher than 8% was expected not to build an adequate reserve. Capping annual increases at 8% will allow benefits to increase significantly during big return years without impairing the Plan's ability to build enough reserve to protect benefits in down markets.

What are the cap and stabilization reserve?

The sustainable income benefit cap is 8%. This represents the maximum **annual** increase to benefit amounts and is part of the stabilization feature. If the investment return is high enough to produce a benefit increase above 8%, the excess is put into the stabilization reserve. This happens when the Plan returns are greater than 13.4%. The stabilization reserve can then be used to prevent benefit amount decreases for retirees in years where their underlying benefit is lower than their high water mark.

What is a shore-up?

If the Plan earns less than 5% on its investments, underlying benefits goes down. The Trustees can use the stabilization reserve to "shore-up" the benefits so that retired participants do not have their benefit reduced. A "shore-up" is discretionary and only available if there is money in the stabilization reserve.

What is the underlying benefit?
A participant's "underlying benefit" is the benefit that reflects all market fluctuations, but no "shore-ups." This is the benefit that gets adjusted annually based on the Plan's investment return.

For example, a hypothetical retiree is receiving a sustainable income benefit of $1,000/month and this is also their "underlying benefit" as of that date. The Plan earned an investment return of 1% during the plan year before last. As of July 1, the "underlying benefit" will reduce to $962/month [1,000 × (1 + 0.01 / 1 + 0.05)]. Prior to the July 1 adjustment date, the Trustees decide to "shore-up" benefits, so our hypothetical retiree continues to receive $1,000/month but the underlying benefit is $962. Then the Plan earns an investment return of 16% the next plan year. Because the return is higher than 13.4%, the benefit increase is 8%. The next July 1, the "underlying benefit" will increase to $1,039/month ($962 × 1.08). Since this amount is greater than $1,000/month, the participant will begin receiving $1,039/month and the shore-up is no longer needed.

What is the high water mark benefit?
The high water mark benefit is the highest sustainable income benefit amount to date. Typically, this term is used when describing a "shore-up" because the "shore-up" is typically used to restore the high water mark benefit. In the example above, the hypothetical retiree's high water mark benefit is $1,000/month and then increases to $1,039/month.

Can I still retire early?
Yes. You can still retire before your normal retirement age. The adjustment that will be made to your benefit for early retirement will be different for portions of your benefit earned before and after July 1, 2011. And, those adjustments depend on your age when you start your benefit, your total number of covered hours of employment, and whether or not you meet the recency test.

Can I still retire with an unreduced benefit at age 57?
Yes. You can retire at age 57 with no reduction of your benefit if you meet the recency test and have a total of 30,000 or more hours of covered employment.

What is the recency test?
The recency test was added to the Plan as part of the rehabilitation plan and it applies to the new sustainable income benefit as well. It requires you to work at least 3,500 hours in the five years before you start your retirement benefit to receive the most favorable early retirement adjustment factors. If you meet this recency test, the factors used depend on the total number of hours of covered employment you have over your career.

For example, you can retire as early as age 57 with no reduction of your benefit if you meet the recency test and have a total of 30,000 or more hours of covered employment. Whether or not you meet the recency test has a significant impact on your retirement benefit, especially if you retire early.

Can I add my own money to the Plan?
No. Just like before this change, the Plan does not allow for participant contributions.

Can I pick my own asset allocation?
No. There's no change in the way the asset allocation will be determined. The trustees work with the investment advisor to determine the best asset allocation for the Plan, balancing growth of assets and preservation of capital.

Can I still protect my spouse with my retirement benefit?

Yes, you can still choose a benefit option that provides for your spouse after your death. The forms of payment are not changing. With your spouse's consent, you can elect a benefit that is paid for just your lifetime, or you can elect a benefit that continues paying to your spouse after your death.

Do I have to do anything special when I retire now that I will have two benefits (a traditional benefit and a sustainable income benefit)?

No. When you retire you'll receive your traditional benefit plus any sustainable income plan (SIP) benefit you have earned. These benefits will be calculated separately and then added together for your total monthly benefit. The traditional portion of your benefit will remain fixed throughout your retirement, and the SIP portion will be adjusted once a year based on the Plan's actual investment return results.

Glossary of Key Terms

Accrual – The monthly benefit amount you earn each year you work in covered service.

Accruing Pension Contribution – The portion of your contribution that is applied to the pension formula. This rate does not include any supplemental contributions or contributions required under the rehabilitation plan.

High water mark benefit – This is your highest sustainable income benefit amount to date.

Hurdle rate – The investment return threshold of 5% that must be reached to increase your underlying sustainable income benefit.

Accrual rate – Also known as the benefit factor, this is the factor multiplied by the portion of contributions that earn benefits made on your behalf during a calendar year to determine the accrual: hours x hourly contribution rate x accrual rate = annual accrual.

Sustainable income benefit – The portion of your accrued benefit earned on and after July 1, 2021 (as opposed to your traditional benefit earned through June 30, 2021).

Stabilization reserve – The money the Plan holds in reserve that can be used to increase or shore up your sustainable income benefit and protect it from going down following years with investment returns of less than 5%.

Traditional benefit – The portion of your accrued benefit earned through June 30, 2021 (as opposed to your sustainable income benefit earned on and after July 1, 2021).

Underlying benefit – The sustainable income benefit without the shoring up provided by the stabilization reserve.

Vesting – Your right to receive earned benefits after a specified amount of credited service in the Plan.