Introducing Your New Sustainable Income Benefit

In October you received an announcement about important changes to the Carpenters Retirement Plan. Beginning with hours worked on January 1, 2017, you will earn benefits under a new sustainable income benefit formula. Now find out more about the changes to your plan.

This change **does not affect the benefits earned through December 31, 2016**; and it doesn't affect the Carpenters Individual Account Pension Plan, only the Carpenters Retirement Plan.

CARPENTERS TRUSTS
of Western Washington

Contents

This newsletter describes important details about plan changes taking effect January 1, 2017.

The enclosed personalized benefit statement shows how the move to the sustainable income benefit formula may affect you personally.

See the announcement mailed in early October for more about why we are making this change and why we chose this type of benefit. The announcement, a brief video and a pension calculator are posted on our website: **ctww.org**.

Glossary of Key Terms

This newsletter uses terms you might not be familiar with or do not use on a daily basis. The glossary will help you as you read through the document.

Annual accrual – The benefit amount you earn each year you work in covered service.

Benefit factor – 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 benefit factor = annual accrual. Please see page 6 for an example.

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

Hurdle rate – The investment return threshold of 4% that must be reached to increase your underlying sustainable income benefit.

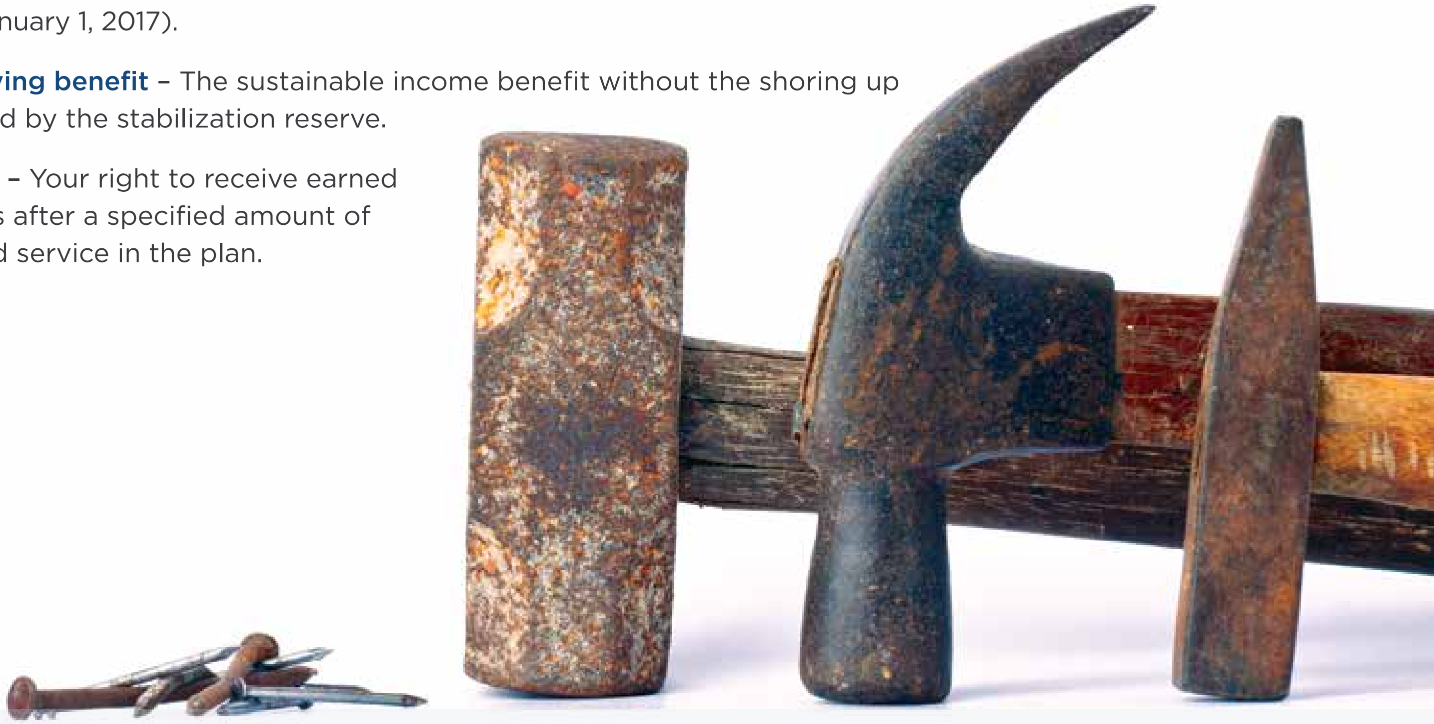
New benefit – The portion of your accrued benefit earned on and after January 1, 2017 under the new sustainable income benefit formula (as opposed to your traditional benefit earned through December 31, 2016).

Stabilization reserve – The money the plan holds in reserve to increase or shore up your sustainable income benefit and protect it from going down following years with investment returns of less than 4%.

Traditional benefit – The portion of your accrued benefit earned through December 31, 2016 (as opposed to your sustainable income benefit earned on and after January 1, 2017).

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.



Your New Sustainable Income Benefit

Balancing Flexibility and Security

For hours worked beginning January 1, 2017, the Carpenters Retirement Plan benefits will be earned under a new sustainable income benefit formula. The new formula and the benefit earned under this formula:

- Are still defined benefits.
- Are still part of the Carpenters Retirement Plan.
- Continue to provide lifelong income.
- Offer potential for growth (during your working years and after retirement) to help protect against the loss of buying power that comes with inflation. (The traditional benefit provides a fixed amount that does not change during retirement.)
- Continue to have professionally managed investments.
- Continue to protect carpenters from most downside investment risk.

For hours worked beginning January 1, 2017, the benefit you earn will be under the new sustainable income benefit formula. The benefit you earn through December 31, 2016 under the traditional benefit formula remains unchanged. You'll receive both benefits when you retire.

> “At retirement, you will receive both your traditional benefit earned throughout December 31, 2016 and your sustainable income benefit earned for hours worked starting January 1, 2017”

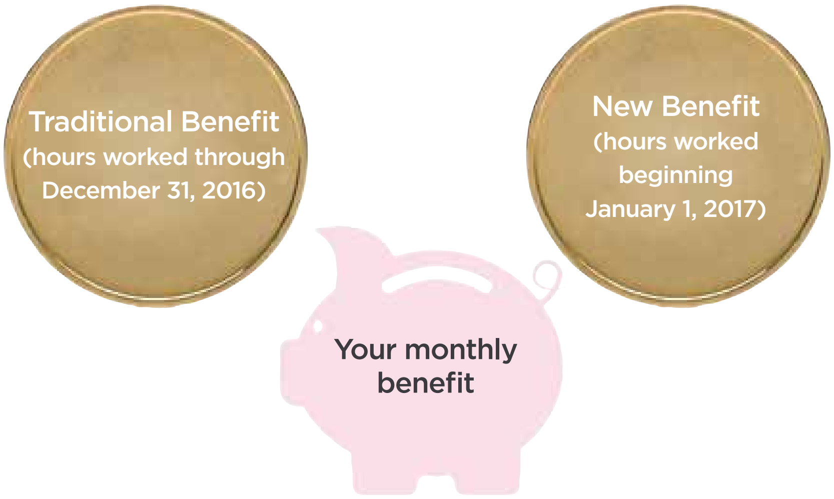
The Big Picture

What's Changing

- For hours worked through December 31, 2016, your benefit is accrued under the traditional formula – you keep your traditional benefit but it does not continue to grow.
- For hours worked beginning January 1, 2017, there is a new benefit formula – the new benefit is a sustainable income benefit.
- At retirement, you will receive the sum of your traditional benefit earned through December 31, 2016 and your sustainable income benefit earned beginning January 1, 2017. You must be vested to receive benefits at retirement (please see page 10 for more about vesting).
- Your sustainable income benefit accruals and payments you receive in retirement change with the plan's investment returns:
  - If the plan's investments earn more than the 4% hurdle rate, your new benefit increases (up to a maximum increase of 6% per year).
  - If the plan's investments earn less than the 4% hurdle rate, your underlying benefit goes down – but a portion of the stabilization reserve will be spent to continue to pay the high water mark benefit. This protects your benefit from going down.

What's Not Changing

- You keep your traditional benefit earned through December 31, 2016.
- You don't have to start over when it comes to vesting in your new benefit – your combined credited service counts toward vesting for both the traditional benefit and the new benefit.
- "Rule of 80" early retirement is still available on both your traditional benefit earned through December 31, 2016 and the sustainable income benefit earned starting January 1, 2017.
- Your combined credited service counts toward "Rule of 80" early retirement eligibility.
- The plan investments continue to be professionally managed. You are not responsible for investment decisions.
- Like the traditional benefit, the new benefit maintains the security of lifelong income.
- Employers will be making at least the same level of contributions for the new benefit, which is designed to provide the same value as the traditional benefit over time.



How Your New Benefit Is Calculated

The new benefit is called a sustainable income benefit. It combines lifelong income with the flexibility to move with the plan's investment returns. Your new benefit is expected to grow over time, even during retirement.

Sustainable Income Benefit Formula

Just like your traditional benefit, you accrue a sustainable income benefit each year you work in covered service. Your accrued benefit is based on a formula that takes three factors into account:

- **Benefit factor –** Under the new sustainable income benefit formula, the benefit factor is 0.87%.
- **Hourly contribution rate –** The hourly contribution amount is set by the collective bargaining agreement or contribution agreement you work under and the portion that earns benefits is currently $3.25 per hour for most carpenters.
- **Number of covered hours you work –** The more hours you work in a calendar year, the greater your accrued benefit.

Example:
For example, if you work 1,500 hours in a calendar year, the benefit you would earn for that year of service would be:

1,500 hours	X	$3.25 per hour	X	0.0087 (.87%)	=	$42.41

The $42.41 annual accrual is your normal retirement benefit payable as a single life benefit guaranteed for five years. This amount is adjusted if you retire early (unless you qualify for special early retirement at age 62 or older, or Rule of 80 early retirement), or choose another form of payment such as a joint and survivor benefit.

Traditional Benefit Formula

Under the traditional benefit, the benefit factor is currently 1.5%.

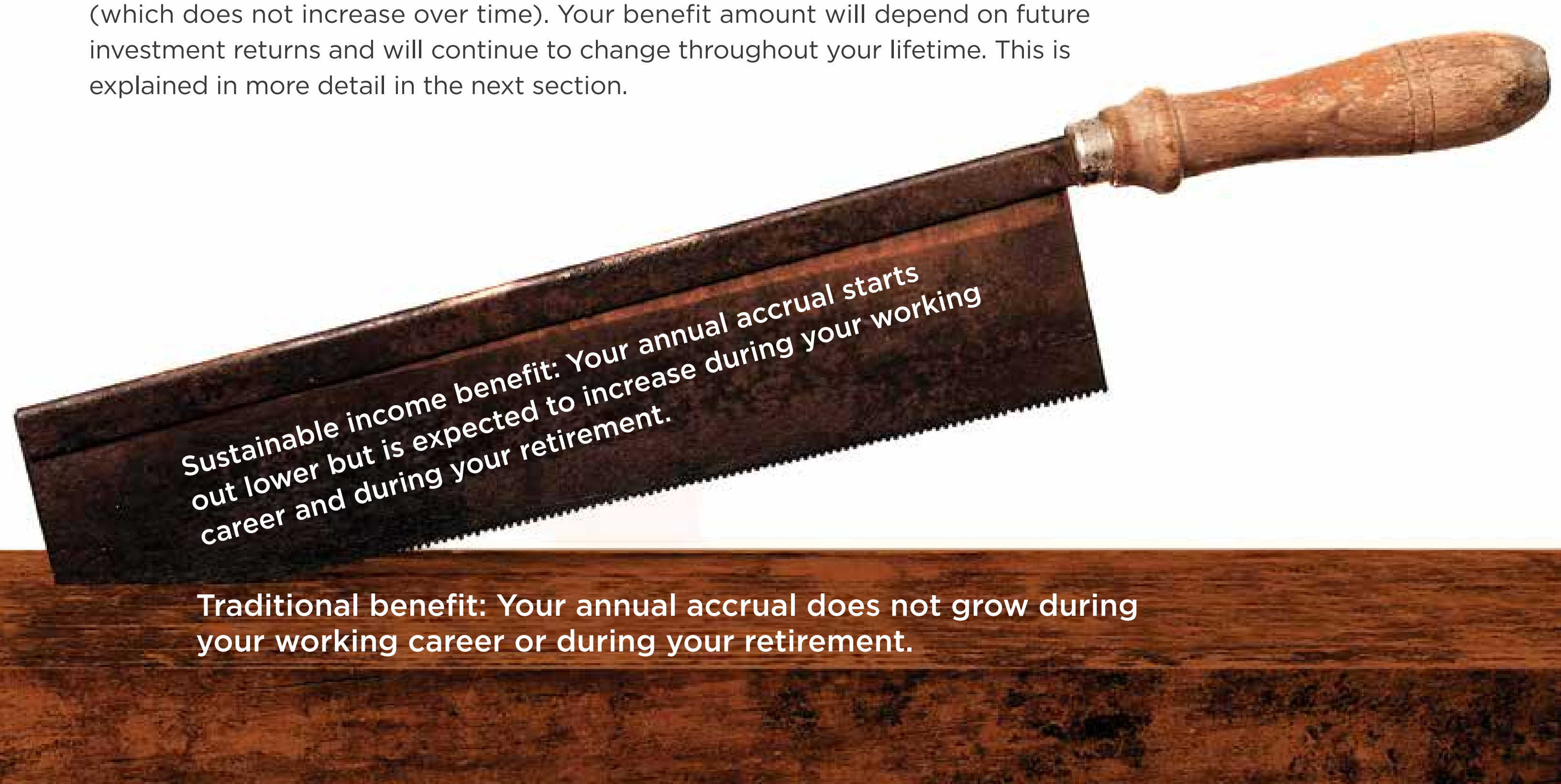
Example:

For example, if you work 1,500 hours in a calendar year, the benefit you would earn for that year of service would be:

1,500 hours	X	$3.25 per hour	X	0.015 (1.5%)	=	$73.13

The $73.13 annual accrual is your normal retirement benefit payable as a single life benefit guaranteed for five years. This amount is adjusted if you retire early (unless you qualify for special early retirement at age 62 or older, or Rule of 80 early retirement), or choose another form of payment such as a joint and survivor benefit.

You will notice that the new benefit factor (0.87%) is lower than the current traditional benefit factor (1.5%). However, your new sustainable income benefit is expected to grow over time. Even though the benefit is lower at the start due to the smaller benefit factor, the new benefit has the potential to catch up and even exceed what it might have been under the traditional benefit formula (which does not increase over time). Your benefit amount will depend on future investment returns and will continue to change throughout your lifetime. This is explained in more detail in the next section.



How Benefits Change With Investment Returns

The new benefit has a hurdle rate of 4%. Each year the underlying benefit goes up, down or stays the same based on whether investment returns are greater than, less than or equal to the hurdle rate. The following formula illustrates how this change is calculated.

Underlying benefit
times
(1 + investment return) = New underlying benefit
divided by
(1 + hurdle rate)

If investments earn more than 4%, the benefit goes up with a maximum increase of 6% per year. If investments earn less than 4%, the underlying benefit goes down. However, the stabilization reserve (see opposite) protects your high water mark benefit when the underlying benefit goes down. Of course, investment returns are good some years and not so good in other years, but over the last 25 years, the plan has averaged 7.5% a year. Over that period, the sustainable income benefit would have increased, providing some maintenance of purchasing power.

> "When plan investments earn more than 4%, your underlying benefits go up"

Benefit Adjustment Date

On May 1 every year, your accrued sustainable income benefit will be adjusted based on the prior calendar year's investment returns. Retirees will receive advance notice before their benefit changes on May 1.

Example:

Joe is a retiree with a sustainable income benefit of $1,000 per month. If the plan's investments for the prior calendar year earn 7.12%, Joe's underlying benefit will increase to $1,030 per month beginning May 1 of the following year:

$$\frac{\$1{,}000 \times (1 + 0.0712)}{(1 + 0.04)} = \$1{,}030$$

If the plan's investments for the next calendar year earn 4%, no adjustment is made to Joe's underlying benefit beginning May 1 of the following year:

$$\frac{\$1{,}030 \times (1 + 0.04)}{(1 + 0.04)} = \$1{,}030$$

Finally, if the plan's investments for the year after that earn 0.97%, Joe's underlying benefit will decrease to $1,000 per month beginning May 1 of the following year:

$$\frac{\$1{,}030 \times (1 + 0.0097)}{(1 + 0.04)} = \$1{,}000$$

However, $30 per month from the stabilization reserve (please see opposite) will be used to shore up his high water mark benefit so he will continue to receive $1,030 per month. The stabilization reserve would be used until his underlying benefit got back up to the high water mark.

In no case will this adjustment increase the benefit by more than 6%. When returns are greater than 10.24% (1.1024/1.04 – 1 = 6%), the benefit increase will be 6% and the returns in excess of 10.24% will be used to build reserves to be used in the future.

Each year, the benefit adjusts with investment returns. That means Joe's benefit has the potential to grow throughout his working career and retirement. Joe will also receive the traditional benefit he earned through December 31, 2016. The traditional portion of his benefit does not change.

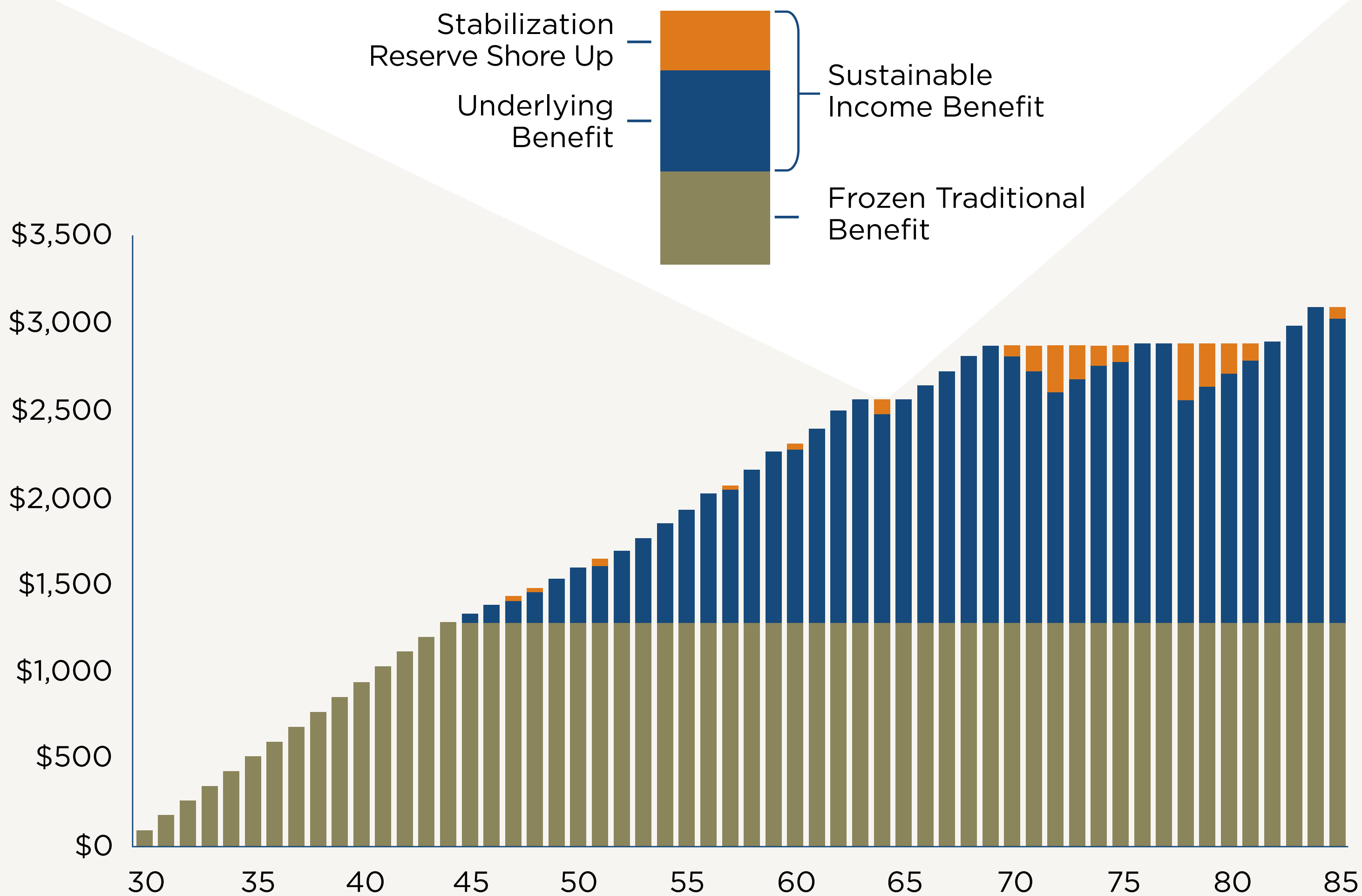
The Stabilization Reserve – Protection When It Counts

To reduce the impact of investment downturns, this plan has a stabilization reserve that will be used to prevent your sustainable income benefit from dropping whenever the underlying benefit is below the high water mark. In years when investment returns are particularly high (above 10.24%), benefit increases will be limited to 6%. The excess returns will build the reserve. Then, that money will be used to shore up benefits in years when investment returns are less than 4%.

The following graph shows how this would have worked for a carpenter if the investment returns from 1960-2015 repeated, assuming he or she earned the traditional benefit until age 45 and the new sustainable income benefit after that.

The **light brown bars** show the traditional benefit earned through age 45. Layered on top of that is the underlying sustainable income benefit (**blue bars**). You can see how the stabilization reserve (**orange bars**) is used to keep the benefit from dropping when investment returns are below 4%.

Although it is unlikely, if the stabilization reserve is not sufficient, the underlying benefit would be paid (the total of the **blue** and **light brown** bars for that year, but not the **orange bar**).



Other Plan Changes

In general, the existing plan rules will continue to apply to your traditional benefit earned through December 31, 2016, and some new rules will apply to your sustainable income benefit earned on and after January 1, 2017. When you retire, the two portions of your benefit (traditional and sustainable) will be calculated separately and then added together to determine your monthly benefit.

The following sections provide more details about the new rules and their effect on your benefit.

> “If you have already met your vesting requirement, you are automatically vested in your traditional and sustainable income benefits”

Vesting

Vesting means you have a right to your accrued monthly benefit. You are either vested or not; there is no partial vesting in this plan. If you have met your vesting requirement, you have a right to the benefit you have earned (following the rules of the plan).

There is no change to the five-year vesting requirement for the traditional benefit. The vesting requirement for the sustainable income benefit is three years of service. This means you will have different vesting requirements for your sustainable income and traditional benefits.

All years of nonforfeited credited service with the plan count toward vesting in both benefits. You earn one year of service toward vesting for each calendar year in which you have 1,000 or more hours of covered service. You can earn one-half of a year of service with 500-749 hours and three-quarters of a year of service with 750-999 hours.

You will permanently forfeit your credited service if you have a permanent break in service before meeting the vesting requirements of the plan. A permanent break in service occurs if you work fewer than 500 hours in a calendar year for five consecutive years before becoming vested.

Vesting Examples

As of January 1, 2017, Cindy has five years of credited service. Because years of credited service apply to both the traditional and sustainable income benefit, Cindy is vested in her traditional benefit and also immediately vested in any future accruals she earns in her sustainable income benefit.

Tom, on the other hand, has three years of credited service without a permanent break in service as of December 31, 2016. Here's where he stands in both benefits:

Traditional benefit – The traditional benefit requires five years of credited service for vesting. Therefore, Tom needs two more years of credited service before he vests in his traditional benefit. If he gets two more years before he has a permanent break in service, he will be vested in the traditional benefit. He will forfeit his traditional benefit accrued through December 31, 2016 if he works fewer than 500 hours per calendar year for five consecutive years before earning those two additional years of service.

Sustainable income benefit – Tom is immediately vested in any new benefit earned starting January 1, 2017 because, as of December 31, 2016, he already has three years of credited service without a permanent break in service. If Tom had a permanent break in service before December 31, 2016, the three years of service he earned before January 1, 2017 would not count toward vesting.

Other Plan Changes

When It Comes to Retirement Benefits, Age Matters

With the Carpenters Retirement Plan – like all defined benefit plans – your age when you begin receiving your monthly benefit matters. The benefit you earn is based on the notion that you'll begin receiving monthly payments at "normal" retirement age – age 65. If you retire earlier, your benefit is usually adjusted by "early retirement factors" because the plan expects that you will receive benefit payments over a longer period of time.

Effective January 1, 2017, there are changes to **certain** early retirement factors but many of the rules for early retirement remain the same:

- **No change to Rule of 80 early retirement** – This applies to **both** traditional and sustainable income benefits. All credited service counts toward Rule of 80 eligibility.
- **No change to unreduced retirement at age 62** for participants retiring under special early retirement – This applies to **both** traditional and sustainable income benefits.
- **No change to the eligibility requirements** for regular, special and Rule of 80 early retirements – This applies to **both** traditional and sustainable income benefits.
- **No change to the regular or special early retirement factors** for your traditional benefit earned through December 31, 2016.
- **There are changes** to the regular and special early retirement factors for your sustainable income benefit earned on and after January 1, 2017.

Normal Retirement

Age 65 if you are vested or, if later, your fifth anniversary of participation in this plan without a one-year break in service; applies to both traditional and sustainable income benefits.

Regular Early Retirement

Age 55 through 64 if you are vested; separate early retirement factors apply to traditional and sustainable income benefits.

Special Early Retirement

Age 55 through 64 if you are vested and you satisfy the activity test; benefits are unreduced at age 62; at ages 55 through 61 separate early retirement factors apply to traditional and sustainable income benefits.

Rule of 80 Early Retirement

AGE 55

Age 55 through 61 if you are vested and your age plus years of credited service equals 80 or more and you satisfy the activity test; benefits are unreduced; applies to both traditional and sustainable income benefits.

Please see the Carpenters Retirement Plan booklet, available at ctww.org, for more information on the activity test and early retirement.

Regular Early Retirement Factors

There is no change to the regular early retirement factors that apply to the traditional portion of your benefits. Different factors will apply to the sustainable income portion of your benefit. Does not apply to Rule of 80 retirements.

Age	Traditional Benefits – No Change	Sustainable Income Benefits - New
55	55%	52%
56	61%	55%
57	67%	58%
58	73%	62%
59	79%	66%
60	85%	70%
61	88%	76%
62	91%	82%
63	94%	88%
64	97%	94%
65	100%	100%

Special Early Retirement Factors

There is no change to the special early retirement factors that apply to the traditional portion of your benefits. Different factors will apply to the sustainable income portion of your benefit. Does not apply to Rule of 80 retirements.

Age	Traditional Benefits – No Change	Sustainable Income Benefits - New
55	67%	64%
56	73%	68%
57	79%	72%
58	85%	77%
59	91%	82%
60	94%	87%
61	97%	93%
62	100%	100%
63	100%	100%
64	100%	100%
65	100%	100%

Other Plan Changes

Early Retirement Example

Suppose Tim has a traditional normal retirement benefit of $1,000 and a sustainable income normal retirement benefit of $1,500. He retires at age 60 having met the special early retirement eligibility requirement. His retirement benefit is:

94%	X	$1,000	+	87%	X	$1,500	=	$2,245

If Tim had NOT met the special early retirement eligibility, regular early retirement factors would apply to his benefit and the benefit would be:

85%	X	$1,000	+	70%	X	$1,500	=	$1,900

Joint and Survivor Factors

When you retire, you may elect a joint and survivor benefit which provides a reduced monthly benefit for your lifetime. Following your death, a percentage of your reduced monthly benefit amount is payable to your surviving beneficiary, who may be either your spouse or contingent beneficiary. The percentage is elected at the time you retire, and may be either 50%, 75% or 100%. Should your beneficiary die before you while you are receiving retirement benefits and you notify the trust, your future benefit payments will “pop-up” to the amount you would have received had you elected the single life benefit at retirement.

The joint and survivor option assumes payments will be made over two lifetimes – your life and your beneficiary’s life – rather than one. Therefore, the monthly benefit is reduced to be approximately equal in value to a single life benefit. The amount of the reduction is determined by factors, which vary depending upon your age and life expectancy, your beneficiary’s age and life expectancy, and the percentage you elected.

There is no change to the joint and survivor benefit factors that apply to the traditional benefit earned before January 1, 2017 (please see the Carpenters Retirement Plan booklet or **ctww.org** for these factors).

For your sustainable income benefit, the plan will use factors derived from the mortality table prescribed by the Federal government for plans with designs like the sustainable income benefit and a 4% interest rate – the hurdle rate for the sustainable income benefit. The resulting factors are recalculated by the plan’s actuary each year based on updates to the Federal government’s mortality table. A copy of the factors that apply to the sustainable income benefit for distributions occurring between January 1, 2017 and December 31, 2017 is posted on our website: **ctww.org**.

Pension Enhancement Option (PEO)

Currently, you can use all or a portion of your account balance in the Carpenters of Western Washington Individual Account Pension Plan to increase your monthly benefit under the Carpenters Retirement Plan.

The PEO, as it currently works, is inconsistent with sustainable income benefits.

The PEO option will not change for 2017. However, the Trustees are currently exploring options for the PEO beyond 2017. More information will be provided as it becomes available.

Late Retirement

If you start your traditional benefit payments after age 65, your monthly retirement income is based on the accrued benefit you have earned as of the date payment of your benefit begins. Because you were eligible to start benefit payments at age 65 (if you stopped working), you have the option of either receiving a lump sum in the amount of any missed payments from age 65 to your actual retirement date plus interest, or an increased monthly benefit payable for life.

If you start your sustainable income benefit payments after age 65, you will not get missed payments with interest for the sustainable income portion of your benefits; the only option will be the increased benefit payable for life. The benefit increase is one-third percent of your benefit for each missed payment – essentially the value of your missed payments, spread over your expected lifetime.

This notice contains an overview of the changes being made to the Carpenters Retirement Plan of Western Washington. The notice is provided in accordance with Section 204(h) of the Employee Retirement Income Security Act of 1974, as amended, and Section 4980F of the Internal Revenue Code of 1986, as amended. This notice also constitutes a summary of material modification to the 2012 edition of the plan booklet. A copy of the plan and plan booklet are available at ctww.org. You may also obtain a copy by writing to:

Carpenters Trusts of Western Washington at P.O. Box 1929, Seattle, WA 98111-1929.