Northwest Glass, Molders, Pottery, Plastics, and Allied Workers Pension Trust

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Welfare & Pension Administration Service, Inc.

NW GMP Sustainable Income Plan Frequently Asked Questions

What date was the Sustainable Income Plan (SIP) effective?

Any hours worked on or after of April 1, 2024 have a SIP accrual.

Is the sustainable income plan benefit a pension?

Yes, the benefit determined under the sustainable income plan benefit formula is a defined benefit pension that provides lifetime income. When you retire you can select from forms of payment that cover your or you and your spouse's lifetime.

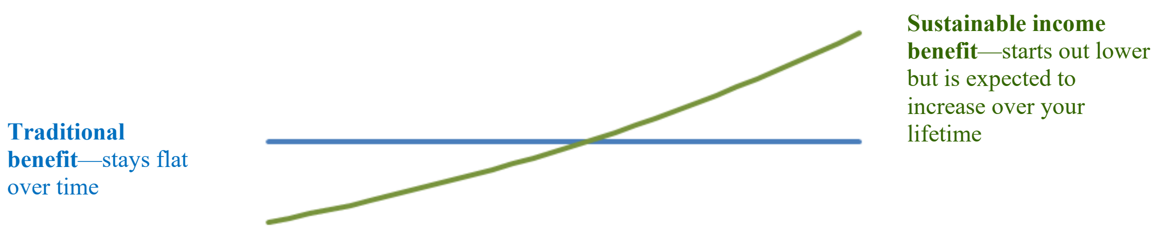
What is the sustainable income benefit formula?

Like the traditional benefit, you accrue a benefit under the sustainable income plan (SIP) benefit formula each year you're eligible. The accrual rate is 0.87%.

Contributions (contribution rate times hours)   X   0.87% accrual rate   =   Annual accrual

The 0.87% accrual rate for the SIP benefit is lower than the 1.2% accrual rate that was effective in the traditional plan just before transition. Unlike the traditional benefit formula, the SIP benefit has the potential to grow over time:

- Investment returns above 5% 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 at Board of Trustee discretion.
- 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 has the accrual rate been continuously brought down but never goes back up?

The accrual rate has been adjusted in recent years to avoid funding issues that would have required benefit reductions and/or contribution increases. The decrease to 1.0% in 2020 was reversed in 2021 (back to 2.3%). The accrual rates in place prior to 2009 are unsustainable in the current investment and regulatory environment. The Trustees did increase the accrual rate from 2.0% to 2.3% in conjunction with a change in the early retirement factors in 2016.

Why do we need to make the change?

The NWGMP Plan is mature which means it is more sensitive to poor investment returns. It is very difficult for mature plans to recover from market downturns. In the long run moving to a SIP makes the Plan indifferent to maturity since benefits stay fully funded.

The accrual rate changes over the last few years have been in direct response to low investment returns. The Trustees were able to reduce the accrual rate to avoid funding issues at the time. This allowed investment markets to recover. This fix won't always work, and the alternatives are more drastic accrual rate cuts and/or contribution increases. In the long run moving to a SIP will stabilize plan funding.

The SIP isn't a silver bullet. It will take 25+ years before the benefits earned in the SIP are large enough to start stabilizing Plan funding. In the meantime, if the Plan has funding issues, adjustable benefit reductions and/or contribution increases will be needed to fix the problem.

How does the plan intend to increase benefits in the future?

The Trustees are always looking to maximize the benefits provided by the Plan without jeopardizing the Plan's ability to pay benefits now and in the future. The following avenues are available for improving benefits:

- **SIP adjustments** – Benefits earned in the SIP will adjust annually with actual investment returns. The adjustment will be an increase if the return is over 5.0%. Over time we expect that SIP benefits will see net increases due to annual adjustments.
- **Accrual rate** – The current accrual rate is 0.87%. As the Plan's funding improves and there is a cushion to absorb poor returns on the traditional portion of the Plan, the Trustees could increase the accrual rate. This is something they monitor.
- **Ad hoc increases** – The SIP is designed to maintain a 120% funded percentage to ensure shore-up payments can be made when needed. Most SIP plans have set a threshold of 125% or 130% funded before contemplating using the excess to improve benefits. The Trustees will set this threshold, and use of any excess is at their discretion.

How does the switch to the SIP benefit the pensioners?

- When SIP benefits make up most of the Plan the risk of it becoming underfunded is greatly decreased. The NWGMP plan has never had to implement a recovery plan (legally called either a Rehabilitation Plan or Funding Improvement Plan) due to poor funding, but most recovery plans require additional contributions that don't generate benefits. For many multiemployer plans, those additional contributions come out of the wage package, so aren't used for pay increases or other purposes. So, by securing funding in the future, participants are less likely to experience this type of event.
- By securing funding, the Plan is more likely to be able to pay all benefits long into the future, securing retirements for this and future generations.
- SIP benefits are expected to increase over time, so participants gain some automatic inflation protection in their benefits, something the traditional plan does not have.

How does the SIP compare to a 401(k)?

The SIP is closer to a traditional pension plan than a 401(k) plan. The SIP provides a monthly benefit at retirement that you can't outlive. A 401(k) plan provides an account balance that you have to manage in retirement to ensure you don't outlive it.

One SIP feature is more 401(k) like: it passes investment returns to participants on an annual basis. The SIP, unlike a 401(k), is designed to prevent benefit declines in retirement even when investment returns are poor.

What alternative options were explored?

Over the years the NWGMP Trustees have learned about and explored other types of variable plans, defined contributions plans, and other modifications to the traditional plan. The SIP plan design was formally discussed in 2020 but had been discussed on a less formal basis prior to then.

What is the "hurdle rate" and "cap"?

The "hurdle rate" is the interest rate that the annual investment return for the Plan is compared to when determining the sustainable income plan (SIP) benefit adjustment for the 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. SIP benefit increases are also impacted by the "cap" of 6.0% each year.

Plan's investment return	Benefits go UP approximately
6%	1%
8%	3%
10%	5%
11.3%	6%
20%	6%

If the Plan's investments return 11.3%, the SIP benefits increase 6%. If the Plan's investments return more than 11.3%, the SIP benefit increase is capped at 6%, 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. For participants that are retired, the Plan's stabilization reserve may be used to keep the benefit payments level for the year (in other words, shore up the benefit).

How is the stabilization reserve funded?

When underlying SIP benefits decrease, the stabilization reserve may be used to keep benefit payments level for retirees. There are two funding sources for the stabilization reserve:

- Returns in excess of the cap – The sustainable income benefit cap is 6%. 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 of 6% (the cap), the excess return is put into the stabilization reserve. This happens when the Plan returns are greater than 11.3%.
- Reserve contributions – Annual benefit accruals are funded at 115% in the SIP. This means that each year employer contributions need to cover at least the cost of the benefits accruals that year plus an extra 15%. The extra 15% goes to the stabilization reserve.

The stabilization reserve may 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 go down. The Trustees may use the stabilization reserve to "shore-up" the benefits so that retired participants do not have their benefit reduced. A "shore-up" is discretionary (the Trustees must approve it) 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 April 1, the "underlying benefit" will reduce to $962/month [1,000 × (1 + 0.01) / (1 + 0.05)].
- Prior to the April 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. If there were no stabilization reserves available or if the Trustees did not authorize a "shore-up", the $962 would be paid.
- Then the Plan earns an investment return of 16% the next plan year. Because the return is higher than 11.3%, the benefit increase is 6%. The next April 1, the "underlying benefit" will increase to $1,020/month ($962 × 1.06).
- Since this amount is greater than $1,000/month, the participant will begin receiving $1,020/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 initially $1,000/month and then increases to $1,020/month and will increase again when the SIP adjustments cause the underlying benefit to be greater than $1,020.

How does this change affect someone who is not yet vested? For example, an employee who only has 2 years of service at time of change, are the 2 years calculated at the old rate or new rate?

All benefits earned prior to April 1, 2024 will be earned on the traditional plan basis. All benefits earned on and after April 1, 2024 will be earned on the SIP basis. Vesting under either design counts for both. Once five total years of vesting service is earned, both benefits will be fully vested. If you had 2 years of vesting at April 1, 2024 you need to earn 3 more years of service to be vested in all Plan benefits.

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.

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

Hurdle rate – The investment return threshold of 5% that is compared to the annual investment return for the Plan to determine the sustainable income plan benefit adjustment for the year.

Accrual rate – This is the factor multiplied by the contributions 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 April 1, 2024 (as opposed to your traditional benefit earned through March 31, 2024).

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

Traditional benefit – The portion of your accrued benefit earned through March 31, 2024 (as opposed to your sustainable income benefit earned on and after April 1, 2024).

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.

Important Reminder - You must advise the Administration Office of any changes in your basic demographic data, including changes in your name, marital status, dependents, other insurance coverage available, designated beneficiary, home address, email address and telephone number. Provide information changes by completing and sending a new Enrollment Form to the Administration Office. If you have a change in dependents, divorce requires a complete filed copy of your divorce decree along with any accompanying court orders including the parenting plan. Marriage requires a copy of your marriage certificate, the parenting plan for stepchildren and their birth certificates.

Failure to update your information on file may interfere with our ability to process your benefits and provide timely communication of important Plan information.