Pipe Trades Services MN Pension Fund
Sustainable Income Plan (SIP) – Frequently Asked Questions

INTRODUCTION

Effective April 1, 2020, the Pipe Trades Services MN Pension Fund ("Pension Fund") is transitioning from a traditional defined benefit pension plan benefit formula to a new variable benefit formula called the Sustainable Income Plan ("SIP"). Pension plans with this type of variable benefit formula are commonly referred to as variable annuity pension plans ("VAPPs").

The following Frequently Asked Questions are intended to provide you with information about this change to the Pension Fund. If you have not already done so, please watch the introductory video available online at www.ptsmn.org for additional information about why this change is being implemented and how it affects you and your benefits.

BACKGROUND INFORMATION

Q-1 **<u>What is a VAPP?</u>**

A-1 A VAPP is a type of defined benefit pension plan where benefits can increase or decrease depending on the investment returns of the plan's assets. Generally, the benefits payable under a VAPP will increase if the plan's investment returns exceed the plan's target investment return (or "Hurdle Rate") and benefits will decrease if the plan's investment returns are below the plan's target investment return. Because benefits are adjusted based on how well a plan's investments perform, a VAPP's funding (i.e., the likelihood that the VAPP will have the assets to pay the benefits promised to retirees) can better withstand years where there are adverse market conditions and the plan's investments underperform. The promised benefits payable from a VAPP are adjusted to keep the benefits on par with the plan's investment returns.

Q-2 **<u>Is a VAPP a Common Type of Pension Plan?</u>**

A-2 VAPPs have been around since the 1950s and over the long term have maintained healthy funding despite poor market conditions in some years. Although VAPPs have many positive attributes from a pension plan design perspective, until recently VAPPs were not a popular type of plan design due to legal uncertainties and the potential for benefits to decline, even for retirees. However, recent regulatory guidance reduces the legal uncertainties associated with VAPPs. As a result of this guidance, VAPPs have recently grown in popularity as many traditional defined benefit pension plans are looking for solutions to maintain adequate funding to pay for promised benefits. Like other pension plans that have transitioned to (or are transitioning to) a VAPP, the Pension Fund will utilize a specific type of VAPP design called a Sustainable Income Plan ("SIP") in an effort to reduce the risk that benefits will decline. See <u>Q&A 3</u> below for additional details regarding a SIP.

Q-3 **<u>What is the SIP?</u>**

A-3 The SIP is a type of VAPP designed to include an additional feature called the "Stabilization Reserve." Generally speaking, the Stabilization Reserve is pool of money set aside within the Pension Fund that can primarily be used to increase or "shore up" your monthly SIP Benefit payments if the underlying value of your SIP Benefits decrease because the Pension Fund's investments underperformed due to poor market conditions (for more detailed information regarding the "Stabilization Reserve," see Q&A 24). There are currently about a dozen SIPs in place across the country and the oldest has been around for about five years.

Because a SIP is simply a specific type of VAPP, it is expected that SIPs will be as successful as VAPPs have been because SIPs have the same underlying benefit formula that allows VAPPs to maintain adequate funding despite years with adverse market conditions. Unlike a VAPP, however, the addition of the Stabilization Reserve feature in the SIP reduces the likelihood of benefit declines for individual participants even in retirement.

Q-4 **<u>Is the SIP replacing the Pension Fund?</u>**

A-4 No. The Pension Fund will continue to operate as one multiemployer defined benefit pension plan, but will generally consist of two parts—the "Legacy Plan" and the "SIP."

The term "Legacy Plan" refers to the portion of the Pension Fund attributable to the benefits earned before April 1, 2020. Benefits earned under the traditional defined benefit formula of the Legacy Plan before April 1, 2020, are generally referred to as "Legacy Benefits."

The term "SIP" refers to the portion of the Pension Fund attributable to benefits earned under the new variable benefit formula that will become effective on April 1, 2020. Benefits earned under the SIP's variable benefit formula are generally referred to as "SIP Benefits."

For more information about the SIP and how its variable benefit formula will affect the SIP Benefits you earn on or after April 1, 2020, see the section below titled "SIP Benefits" beginning with Q&A 6.

If all of your Pension Credits were earned before April 1, 2020, your benefits under the Pension Fund will be calculated using the Legacy Plan's traditional defined benefit formula and you will receive only Legacy Benefits. If all of your Pension Credits are earned on or after April 1, 2020, your benefits under the Pension Fund will be calculated using the SIP's variable benefit formula and you will receive only SIP Benefits. If you have earned Pension Credits before and after April 1, 2020, your benefits under the Pension Fund will include both Legacy Benefits and SIP Benefits.

Q-5 **<u>Why change to the SIP's variable benefit formula if the Pension Fund is currently well-funded?</u>**

A-5 Although the Pension Fund is currently well-funded (91.4% as of May 1, 2018), maintaining that funding level is costly and participants bear that expense through contribution increases and reductions in their benefit accrual rate if asset returns underperform due to poor market conditions. As traditional defined benefit pension plans like the Legacy Plan mature, the demographics of the plan's participants result in fewer incoming contributions based on active employees' work hours to support the benefits payable to an increasing number of retirees. The result is that mature pension plans pay out an increasing amount of benefits that is supported by the same or a lesser amount of contributions being received. This trend makes traditional pension plans increasingly dependent on meeting the Pension Fund's investment target. Eventually, the Pension Fund could reach a point where adverse market conditions and a resulting large decline in investments could cause the Pension Fund to be so underfunded that no practical amount of contribution increases or benefit accrual reductions would replenish the funding shortfall.

Since the early 2000s, the Pension Fund has implemented a number contribution rate increases and benefit accrual reductions in order to improve and/or maintain its funding status. The Trustees have determined that continuing to take these actions every time the Pension Fund faces adverse market conditions is not a sustainable course of action.

Transitioning to a SIP reduces the Pension Fund's reliance on volatile market conditions it cannot control to pay for members' benefits. Because it takes many years to realize the impact of transitioning to a SIP, the Trustees have determined that it is best to make a change to the Pension Fund now while the Pension Fund is well-funded. If the Trustees wait until the next financial crisis to occur to make these changes, it is less likely that the Pension Fund could continue to provide benefit features that are important to participants and beneficiaries like the favorable early retirement factors, the unreduced early retirement pension at age 60, the disability pension and pre-retirement death benefits.

SIP BENEFITS

Q-6 **What is the potential for my SIP Benefits to increase or decrease over time?**

A-6 Your SIP Benefits will fluctuate over time depending on how well the Pension Fund's investment returns perform compared to the Hurdle Rate. When the Pension Fund experiences strong investment returns, the underlying value of your SIP Benefits can increase. In contrast, when the Pension Fund's investment returns do not meet or exceed the Hurdle Rate, the underlying value of your SIP Benefits can decrease. See Q&A 7 below for more detail about how the Pension Fund will calculate the adjustment to the underlying value of your SIP Benefits each year. See Q&A 12 below for information regarding the "Hurdle Rate."

If there is a decrease in the underlying value of your SIP Benefits after you have retired, the Trustees will determine whether there are sufficient assets in the Stabilization Reserve to "shore up" your benefit payments to the prior high-water mark. A "high-water mark" is the highest SIP Benefit payment you have received in the past. See Q&A 10 for additional detail about how shore-up payments from the Stabilization Reserve can be used to restore your benefit payments to their prior high-water mark.

Based on actuarial projections of the amount that will be needed to shore up benefit payments when the Pension Fund faces adverse market conditions, the Trustees are confident that the Stabilization Reserve should be adequately funded to weather most challenging economic scenarios. See Q&A 24 for more detail regarding the Stabilization Reserve and Q&A 25 for more information about the funding of the Stabilization Reserve.

Q-7 How will the Pension Fund determine the underlying value for my SIP Benefits each year?

A-7 The initial value of the SIP Pension Credit you earn each year is determined by the Trustees, in their sole discretion, based upon the rate of contributions under your applicable Collective Bargaining Agreement. For the Plan Year beginning April 1, 2020, you will accrue $15.68 in SIP Benefits for every $1.00 in contributions made to the Pension Fund on your behalf.

As mentioned above, the SIP's benefit formula is variable, meaning that after a SIP Pension Credit is earned, the underlying value of your SIP Benefits will vary from year to year based on the Pension Fund's investments returns. This formula adjusts the value of the SIP Benefit you have accrued each year by comparing the Pension Fund's investment returns to the "Hurdle Rate." See Q&A 12 for additional information about the Hurdle Rate. The Trustees have set the Hurdle Rate at 4.5%. If the Pension Fund's investment returns are:

- Greater than the Hurdle Rate, the underlying value of your SIP Benefits will increase.
- Less than the Hurdle Rate, the underlying value of your SIP Benefits will decrease.
- Equal to the Hurdle Rate, the underlying value of your SIP Benefits will not change.

This adjustment to the underlying value of your SIP Benefits will occur on an annual basis and will apply to each of the SIP Benefit accruals you have earned in both the current year and in all years after April 1, 2020. The formula used by the SIP to determine the amount of the annual adjustment is:

$$\text{SIP Benefits} \quad \textit{multiplied by} \quad \frac{(1 + \text{applicable investment return})}{(1 + \text{Hurdle Rate})}$$

The number generated by this formula is then multiplied by the value of your SIP Benefit accruals for each year. See Q&A 8 below for an example of how these annual adjustments will be applied once you have retired.

To illustrate how the underlying value of your SIP Benefits will accumulate while you are actively employed and accruing SIP Benefits, the following table will be explained column by column.

Plan Year Ending	3/31/21	3/31/22	3/31/23	3/31/24	3/31/25
SIP Accrual	$200	$200	$200	$200	$200
Applicable Investment Return	10.5%	7.2%	0.3%	11.8%	8.3%
Underlying Value of SIP Benefit	$211 ($200 x (1.105/1.045))	$422 (($211+$200) x (1.072/1.045))	$597 (($422+200) x (1.003/1.045))	$849 (($597+200) x (1.065))	$1,087 (($849+200) x (1.083/1.045))
SIP Benefit Payment if Retire	$211	$422	$622 ($597+$25 Shore-Up Payment)	$849	$1,087

Year 1 – Plan Year ending March 31, 2021

Plan Year Ending	3/31/21
SIP Accrual	$200
Applicable Investment Return	10.5%
Underlying Value of SIP Benefit	$211 ($200 x (1.105/1.045))
SIP Benefit Payment if Retire	$211

Beginning with the Plan Year ending March 31, 2021, you can see that the participant earned a SIP Benefit accrual for the Plan Year of $200. The next row titled "Applicable Investment Return" provides the investment return earned by the Pension Fund that will be used to adjust the participant's SIP Benefits (10.5%). Using the formula described above, the $200 SIP Benefit is increased because the investment returns (10.5%) exceeded the Hurdle Rate (4.5%), resulting in a 5.74% increase to the initial $200 accrual. This 5.74% adjustment is calculated by dividing the investment return by the Hurdle Rate (1.105/1.045). This adjusted increase to the $200 accrual gives the participant SIP Benefits with an underlying value of $211.

Year 2 – Plan Year ending March 31, 2022

Plan Year Ending	3/31/22
SIP Accrual	$200
Applicable Investment Return	7.2%
Underlying Value of SIP Benefit	$422 (($211+$200) x (1.072/1.045))
SIP Benefit Payment if Retire	$422

For the Plan Year ending March 31, 2022, the applicable investment return is 7.2%, so the SIP Benefits will be adjusted upwards again because the investment returns (7.2%) exceed the Hurdle Rate (4.5%). Here, the participant has also earned an additional $200 SIP Benefit accrual. This new $200 SIP Benefit is added to the underlying value of the SIP Benefits the participant previously earned ($211) and then adjusted upwards by 2.58%. This 2.58% adjustment is calculated by dividing the investment return by the Hurdle Rate (1.072/1.045). This adjusted increase gives the participant SIP Benefits with an underlying value of $422.

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Year 3 – Plan Year ending March 31, 2023

<table>
<tr><th>Plan Year Ending</th><th>3/31/23</th><td rowspan="5">For the Plan Year ending March 31, 2023, the participant earned another $200 SIP Benefit accrual but the applicable investment return (0.3%) is below the Hurdle Rate (4.5%) so the underlying value of the participant’s SIP Benefits are decreased. The underlying value of the SIP Benefits for this year is calculated by taking the participant’s previously earned SIP Benefit accruals ($422), adding the current year’s SIP Benefit accrual ($200) and then applying the adjustment which is a decrease of 4.02% (1.003/1.045). The result is an underlying value of SIP Benefits of $597. In the last row titled “SIP Benefit Payment if Retire” you can see that the participant’s benefit payments that year would be $622 instead of $597. This increase of $25 as a shore-up payment* from the Stabilization Reserve kicks in because the additional accrual of $200 established a new high-water mark of $622 for the participant when it was added to the participant’s accumulated SIP Benefit accruals ($422). However, this shore-up payment will only be received by the participant if the participant retires prior to March 31, 2024. The underlying value of the participant’s SIP Benefits ($597) will continue to be used for purposes of applying the adjustment based on investment returns as you can see in the next column for the Plan Year ending March 31, 2024, discussed below.</td></tr>
<tr><th>SIP Accrual</th><td>$200</td></tr>
<tr><th>Applicable Investment Return</th><td>0.3%</td></tr>
<tr><th>Underlying Value of SIP Benefit</th><td>$597
(($422+200) x (1.003/1.045))</td></tr>
<tr><th>SIP Benefit Payment if Retire</th><td>$622
($597+$25 Shore-Up Payment)</td></tr>
</table>

*See Q&A 10 for more information about shore-up payments from the Stabilization Reserve.

Year 4 – Plan Year ending March 31, 2024

<table>
<tr><th>Plan Year Ending</th><th>3/31/24</th><td rowspan="5">For the Plan Year ending March 31, 2024, the participant earned another $200 accrual, and the underlying value of the participant’s SIP Benefits that will be adjusted is $797 ($597+$200). While the applicable investment return exceeds the Hurdle Rate (4.5%), the investment returns also exceed the cap on annual increases* to the SIP Benefits which is set at 6.5% (1.118/1.045 = 6.99%). Applying this 6.5% increase to the underlying value of the SIP Benefits ($797), the resulting underlying value of SIP Benefits is $849. You should note that the shore-up payment from the Stabilization Reserve is not earmarked for the participant if the participant retires this year because the adjusted amount of $849 exceeds the high-water mark of the prior year’s underlying value plus the most recent accrual ($597 + $200).</td></tr>
<tr><th>SIP Accrual</th><td>$200</td></tr>
<tr><th>Applicable Investment Return</th><td>11.8%</td></tr>
<tr><th>Underlying Value of SIP Benefit</th><td>$849
(($597+200) x (1.065))</td></tr>
<tr><th>SIP Benefit Payment if Retire</th><td>$849</td></tr>
</table>

*See Q&A 13 for more information about the cap on annual increases to your SIP Benefits.

Year 5 – Plan Year ending March 31, 2025

<table>
<tr><th>Plan Year Ending</th><th>3/31/25</th><td rowspan="5">In this final year of the example, the participant has earned another $200 SIP Benefit accrual which is added to the $849 accrued through the prior Plan Year ($200+$849). The Pension Fund's investment returns (8.3%) again exceed the Hurdle Rate (4.5%), so the underlying value of the participant's SIP Benefits ($1,049) will increase by 3.64% (1.083/1.045) to $1,087.</td></tr>
<tr><td>SIP Accrual</td><td>$200</td></tr>
<tr><td>Applicable Investment Return</td><td>8.3%</td></tr>
<tr><td>Underlying Value of SIP Benefit</td><td>$1,087
(($849+200) x
(1.083/1.045))</td></tr>
<tr><td>SIP Benefit Payment if Retire</td><td>$1,087</td></tr>
</table>

Q-8 **Will my SIP Benefits continue to vary when I retire?**

A-8 Yes, the underlying value of the SIP Benefits you accrue while working will continue to be adjusted annually based on the Pension Fund's investment returns during your retirement. The example below illustrates how the underlying value of your SIP Benefits may be adjusted after you retire:

Assume you are a retiree with SIP Benefits of $2,000 per month. If the Pension Fund's investment return applied to your SIP Benefits is 6.4%, the underlying value of your SIP Benefits will increase to $2,036.40 per month.

$$\$2{,}000 \text{ x } \frac{(1 + 1.064)}{(1 + 1.045)} = \$2{,}036.40$$

If the Pension Fund's investment return applied in the next year is exactly 4.5% (the Hurdle Rate), no adjustment is made to the underlying value of your SIP Benefits in that following year.

$$\$2{,}036.40 \text{ x } \frac{(1 + 1.045)}{(1 + 1.045)} = \$2{,}036.40$$

If the Pension Fund's investment return applied in the year after that is 2.3%, the underlying value of your SIP Benefits will decrease to $1,993.43 per month in the following year.

$$\$2{,}036.40 \text{ x } \frac{(1 + 1.023)}{(1 + 1.045)} = \$1{,}993.43$$

Although the underlying value of your SIP Benefits went down in this last year of the example, your SIP Benefit payments would have remained at the high-water mark of $2,036.40 set in the first year if shore-up payments were made available from the Stabilization Reserve. See Q&A 9 and Q&A 10 for more information about the Stabilization Reserve and shore-up payments.

Q-9 **<u>Using the example above, how does the Stabilization Reserve help me</u>?**

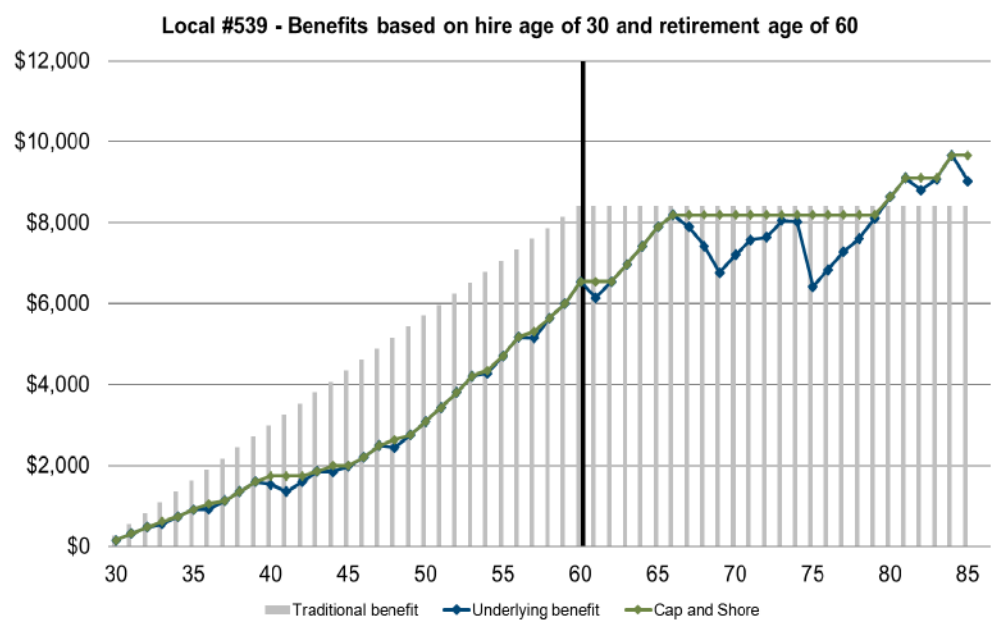
A-9 Although the underlying value of your SIP Benefits decreased, your monthly payments will potentially remain at $2,036.40 (the high-water mark of your SIP Benefit payments). The Trustees will have the discretion to make a shore-up payment of $42.97 from the Stabilization Reserve to restore your monthly payment so that your monthly payments remain equal to the prior high-water mark.

This example assumes that you only earned SIP Benefits under the SIP and that you had not earned any Legacy Benefits under the Legacy Plan. To the extent you had accrued Legacy Benefits, your monthly payments would also include Legacy Benefits in a fixed amount calculated under the formula set forth in the Legacy Plan.

Q-10 **<u>When I retire, will my SIP Benefit payments go down if the Pension Fund has investment returns that are less than the Hurdle Rate?</u>**

A-10 Maybe, but the SIP's design is intended to prevent that from happening. Although the underlying value of your SIP Benefit accruals may decrease, the Stabilization Reserve can be used to "shore up" your benefit payments by paying out the difference between any decrease to the underlying value of your SIP Benefits and the prior high-water mark of your SIP Benefit payments. See Q&A 24 for information regarding the Stabilization Reserve.

The green line in the illustration below demonstrates how the potential shore-up payment from the Stabilization Reserve can be used to maintain your SIP Benefit payments at any prior high-water mark. The Trustees decided to transition to a SIP rather than a traditional VAPP because they intend to use the Stabilization Reserve to shore-up payments following years where investment returns are less than the Hurdle Rate. Shore-up payments are made at the discretion of the Trustees, if possible based primarily on the assets available in the Stabilization Reserve, the overall funding of the Pension Fund, and actuarial projections related to the Pension Fund's future assets and liabilities. See Q&A 12 for details regarding the Hurdle Rate.



Q-11 Is my investment return guaranteed by the Stabilization Reserve?

A-11 ***The Stabilization Reserve is not a guaranteed benefit*** and can only be used in the Trustee's discretion to shore up your benefit payments if it has enough funds to do so. See Q&A 24 for more information about the Stabilization Reserve.

As a reminder, only benefits earned after April 1, 2020, will be calculated under the SIP formula and will have the potential to decrease based if investment returns are less than the Hurdle Rate. Benefits earned prior to April 1, 2020, will continue being calculated under the Legacy Plan and will not increase or decrease based on the Pension Fund's investment returns. Thus, to the extent you accrued benefits before April 1, 2020, you will receive Legacy Benefits in addition to the SIP Benefits illustrated in the diagram above.

Q-12 What is the Hurdle Rate?

A-12 The "Hurdle Rate" is a fixed benchmark set by the Trustees for the Pension Fund's investment returns that will be used to determine the annual adjustment to the underlying value of your SIP Benefits. The Trustees have set the Hurdle Rate for the Pension Fund at 4.5%. See Q&A 7 above for how the Hurdle Rate is used to determine the annual adjustment of your SIP Benefits.

Q-13 Are there limits to the annual increase or decrease in value for my SIP Benefits?

A-13 Yes, there is a 6.5% cap on the percentage increase to your SIP Benefits for each year. This 6.5% cap is based on the difference between the Pension Fund's investment returns and the Hurdle Rate (4.5%), meaning the Pension Fund's investments would have to achieve greater than an 11.29% return for the year in order for the 6.5% cap on increases to come into play. For example, in a year where the Pension Fund experiences a 15% return on its investments, SIP Benefits would otherwise be increased by 10.05% (1.15/1.045). However, because of the 6.5% cap on annual increases to the underlying value of your SIP Benefits, the "excess return" of 3.55% (10.05% - 6.5%) will be allocated to the Stabilization Reserve.

The Trustees will determine how to use any "extra" funds in the Stabilization Reserve. Generally, any extra funds beyond the amount the Trustees deem appropriate to keep in reserve to make shore-up payments could be used to increase the SIP Benefit accruals earned in prior years or used to pay down the liability for Legacy Benefits, which could increase the rate of future SIP Benefit accruals.

If the Pension Fund's investment returns are less than the Hurdle Rate in a given year, there is no lower limit or "floor" that limits how much the underlying value of your SIP Benefits may decrease. However, the SIP is designed to protect you in years where investment returns are less than the Hurdle Rate by making shore-up payments from the Stabilization Reserve to maintain your benefit payments at their high-water mark. See Q&A 9 and Q&A 10 for more information about how shore-up payments can be used to maintain the high-water mark of your SIP Benefit payments.

Q-14 **<u>What is the value of each Pension Credit under the SIP?</u>**

A-14 Effective April 1, 2020, each Pension Credit will be worth $15.68 per dollar of your hourly contribution rate under the applicable Collective Bargaining Agreement. The rate of $15.68 takes into account all of the following costs to the Plan: (1) funding for the Legacy Benefits; (2) payment for SIP Benefits; (3) funding of the Stabilization Reserve; and (4) payment the Pension Fund's operating expenses

Q-15 **<u>If the market is stable, how long will it take for a SIP Pension Credit to have the same value as a Legacy Pension Credit?</u>**

A-15 There is no way to definitively predict how your SIP Benefits will be adjusted over time, but specific examples can illustrate how your SIP Benefit accruals could return to the same level as the Legacy Benefits. Assume a participant's SIP Benefits accrue at $200 each year and their Legacy Benefits accrued at $270 per year.

- If the Pension Fund's investment return is consistently equal to the Hurdle Rate (4.5%) year after year, the value of your SIP Benefits for each and every year will remain at $200.
- If the Pension Fund's investment return is consistently equal to 7.5% year after year, it will take approximately 11 years for a single year's accrual of a $200 SIP Pension Credit to reach $270 since $200 x (1.075/1.045)^11 = $273.

Q-16 **<u>Will there be a cap on Pension Credits earned under the SIP and can you still earn partial Pension Credits (e.g. 0.1 , 0.2, 0.3, etc.) in a year?</u>**

A-16 The current rules regarding how Pension Credits are earned and accrued are not changing. Under the SIP, you will continue to earn one-tenth (0.1) of a Pension Credit for each 180 Hours of Work, with no maximum on the amount of SIP Pension Credits you can earn per year and no maximum on the total number of SIP Pension Credits you can accrue over the course of your career.

Q-17 **<u>If the SIP Benefits are subject to a three-year vesting schedule, do I have to work three more years to be vested in the SIP Benefits that I accrue after April 1, 2020?</u>**

A-17 No. The Pension Fund's change from the current five-year vesting schedule to the three-year vesting schedule does not disregard your Years of Service under the Legacy Plan. Your Years of Service under the Legacy Plan will count toward the three-year vesting schedule, so any participant who already has three Years of Service as of April 1, 2020, will be fully vested in all benefits accrued under the Pension Fund (both Legacy Benefits and SIP Benefits) on April 1, 2020.

This change to the three-year vesting schedule actually makes it *easier* for you to become fully vested in all of your accrued benefits under the Pension Fund. Instead of having to work five years to become fully vested as required under the Legacy Plan, you only have to work three years to become fully vested.

LEGACY BENEFITS

Q-18 **Will my Legacy Benefits be affected by the Pension Fund's transition to the SIP?**

A-18 No. If you accrued Legacy Benefits prior to April 1, 2020, you will remain fully entitled to your vested Legacy Benefits after the Pension Fund's transition to the SIP. All of the benefits, rights and features that you have accrued with respect to your Legacy Benefits prior to the Pension Fund's transition to the SIP will remain in effect for those benefits including the early retirement factors, early retirement eligibility requirements, disability benefits and death benefits.

If you are not 100% vested in your Legacy Benefits as of April 1, 2020, you will still be entitled to any Legacy Benefits you have accrued prior to the Pension Fund's transition to the SIP once you become fully-vested under the Pension Fund's three-year vesting schedule. Your Hours of Work after the Pension Fund's transition to the SIP will continue to be counted for purposes of vesting in any Legacy Benefits you accrued prior to April 1, 2020, and will also count for purposes of vesting in any SIP Benefits that you accrue on or after April 1, 2020.

The Legacy Benefits will remain a part of the Pension Fund and diminish over time until all participants (and their surviving Spouses and Alternate Payees) who are entitled to the Legacy Benefits are deceased.

Q-19 **Why are the SIP Benefits considered to be more sustainable than the Legacy Benefits?**

A-19 The most significant threat to traditional defined benefit pension plans, like the Legacy Plan, is underfunding, meaning the plan does not have enough assets to pay for the promised guaranteed benefits. Underfunding is generally caused by some combination of a decline in contributions from active employees and adverse market conditions resulting in poor investment returns. Transitioning from the Legacy Plan to the SIP significantly reduces the threat of underfunding because the SIP Benefits are adjusted annually to reflect the Pension Fund's investment returns. These annual adjustments based on investment performance more accurately align the benefits payable from the Pension Fund with the assets available to pay for those benefits. As such, the Pension Fund's transition to the SIP should secure its longevity compared to a traditional defined benefit pension plan.

CONTRIBUTIONS TO THE PENSION FUND

Q-20 **Does the contribution rate have to be increased when the Pension Fund transitions to the SIP?**

A-20 While no contribution increases are required because of the Pension Fund's transition to the SIP, the value of the SIP Pension Credits ($15.68) has been determined based on the assumption that contribution rates will be increased. If contribution rates are not increased in the near future, the Trustees will likely have to reduce the value of the SIP Pension Credits and/or reduce the funding of the Stabilization Reserve to maintain the value of your SIP Pension Credits at $15.68. The Trustees would like to avoid reducing the funding of the Stabilization Reserve because such a reduction will decrease the likelihood that the Pension Fund will be able to shore up your SIP Benefit payments if the Pension Fund's investment returns are less than the Hurdle Rate.

Q-21 **Will we ever need to increase the rate of contributions to the Legacy Plan?**

A-21 Contribution increases to pay for the unfunded liability of the Legacy Plan may be required in the future, but based on current projections the current level of contributions should be sufficient to pay down the unfunded liability of the Legacy Plan. However, this result relies on the Pension Fund meeting its investment return target (currently set at 7.5%) and maintaining its contribution base. Should future investment returns fall short of the Pension Fund's target or if the Pension Fund's contribution base is reduced, it is possible that contributions to pay for the Legacy Plan's unfunded liability may need to be increased. Over time, as the Legacy Plan's unfunded liability is expected to decrease, the likelihood of contribution rate increases to fund the Legacy Benefits will diminish.

Q-22 **How will contributions made to the Pension Fund be used after April 1, 2020?**

A-22 Contributions to the Pension Fund will generally be used to: (1) pay for the Legacy Benefits; (2) pay for the SIP Benefits; (3) fund the Stabilization Reserve; and (4) pay the Pension Fund's operating expenses.

Q-23 **What portion of contributions made to the Pension Fund after April 1, 2020, will be used to pay for Legacy Benefits?**

A-23 There is no specific amount of each contribution that will be dedicated to pay for the Legacy Benefits. The portion of contributions required to fund the Pension Fund's liability for the Legacy Benefits liability is subject to change from year to year because of how those benefits are structured, minimum funding requirements under the law and the Pension Fund's investment returns. However, it is estimated that about 25% of the contributions made to the Pension Fund on your behalf will be used to pay for the Legacy Benefits and associated expenses. Even under the Legacy Plan, a portion of contributions made to the Pension Fund on your behalf was used to pay for the Legacy Benefits owed to other participants. Thus, the fact that a portion of contributions made on your behalf after April 1, 2020, will be used to pay for Legacy Benefits and associated expenses is not unique to the Pension Fund's transition to the SIP.

THE STABILIZATION RESERVE

Q-24 **What is the Stabilization Reserve?**

A-24 The Stabilization Reserve is a pool of money in the Pension Fund that is set aside to "shore up" or increase your benefit payments if the Pension Fund's investment returns are below the Hurdle Rate in a given year. The Stabilization Reserve will be funded through monthly contributions into the Pension Fund and the Pension Fund's investment returns in years where returns exceed the annual cap on SIP Benefit increases (6.5%) established by the Trustees. See Q&A 10 for more information about shore-up payments from the Stabilization Reserve. See Q&A 12 for more information about the Hurdle Rate. See Q&A 13 related to the cap on SIP Benefit increases. See Q&A 25 for more information on how the Stabilization Reserve will be funded.

Shore-up payments from the Stabilization Reserve are made at the Trustees' sole discretion and are not guaranteed benefits under the Pension Fund. Generally, the availability of shore-up payments from the Stabilization Reserve will depend on a number of factors including the assets available in the Stabilization Reserve, the overall funding of the Pension Fund and actuarial projections of what the Pension Fund's assets and liabilities will be in the future.

Q-25 **How will the Stabilization Reserve be funded?**

A-25 The Stabilization Reserve will be funded in two ways. The primary method of funding the Stabilization Reserve will be directly from a dedicated portion of the contributions made to the Pension Fund on your behalf. Initially, the Trustees have determined that this dedicated portion of the contributions should be equal to 15% of the projected cost to the Pension Fund to pay your SIP Benefits.

The second method of funding the Stabilization Reserve will be indirectly from "excess" returns which occur when the Pension Fund's investment return for a given year exceeds the 6.5% cap on the annual increase to the underlying value of your SIP Benefits. See Q&A 13 for more information about the allocation of these excess returns to the Stabilization Reserve.

MISCELLANEOUS

Q-26 **Will the Pension Fund's investments be managed differently after the Pension Fund transitions to the SIP?**

A-26 Not necessarily. The Trustees work closely with an investment consultant and investment managers to routinely monitor all aspects of the Pension Fund's investments. The Trustees occasionally make changes, as needed, with respect to the Pension Fund's investments, investment allocations, investment managers and overall investment strategy. This will continue to be the case after the Pension Fund is transitioned to the SIP.

The Pension Fund's transition to the SIP does not require changes to be made to the Pension Fund's investment goals and objectives. In the short term, it is likely that the Pension Fund will make only minimal changes, if any, regarding the Pension Fund's investments since the assets associated with the SIP Benefits will be relatively small compared to the assets associated with Legacy Benefits. In the future, the Trustees, with the advice of their investment professionals, may determine that it would be beneficial to modify the Pension Fund's investment strategy to reflect changes in the market and the Pension Fund's goals and objectives.

Q-27 **<u>If I have both Legacy Benefits and SIP Benefits, will I receive two separate payments each month when I retire?</u>**

A-27 No. As a Retiree, you will receive a single monthly payment that includes any Legacy Benefits you accrued prior to April 1, 2020, and any SIP Benefits you accrued on or after April 1, 2020.

Q-28 **<u>How do I plan for retirement and/or choose my retirement date when my benefit payments will vary?</u>**

A-28 When you retire is a very personal decision. The factors that go into that decision vary from person to person, so there is no single or well-defined approach to determining when retirement is right for you. Understandably, stability is a major factor for most retirees which is exactly why the Trustees have decided to dedicate a portion of the contributions made to the Pension Fund on your behalf to fund the Stabilization Reserve to guard against potential declines in your SIP Benefit payments.

Keep in mind that under the SIP, your SIP Benefits are expected to increase over time – even in retirement. Although it's possible your benefit payments may decrease from one year to the next, the reduced amount could still be higher than it would have been without the Pension Fund's transition to the SIP because of this potential for your SIP Benefits to increase over time.

You should also keep in mind that in addition to the defined benefit payments you will receive from the Pension Fund, you may also receive benefits that you have accrued through the Pipe Trades Services MN Pension Supplement Fund and the Pipe Trades Services MN Retiree Health Trust. You may also have sources of retirement income outside of the benefits you have earned through the Pipe Trades, including Social Security, personal savings, and/or retirement benefits earned by your spouse.

Q-29 **<u>Are there any risks associated with the SIP?</u>**

A-29 Because SIP Benefits will accrue at a lower initial starting rate than the Legacy Benefits, there is a risk that the benefits will not increase to the current rate under the Legacy Plan. However, based on the Pension Fund's historical experience this is unlikely and your SIP Benefit accruals should grow over time (see <u>Q&A 6</u> and <u>Q&A 7</u>). In addition, although SIP Benefits cannot be guaranteed above their underlying value, the Stabilization Reserve is intended to prevent decreases in your SIP Benefit payments when you are retired (see <u>Q&A 9</u>, <u>Q&A 10</u>, and <u>Q&A 24</u>).

Q-30 **<u>What effect will the Pension Fund's transition to the SIP have on members who are currently retired?</u>**

A-30 This change will have no effect on members who are currently retired. Legacy Benefits will continue to be paid in the same amount of the benefit payments made prior to April 1, 2020. If a retiree returns to work on or after April 1, 2020, any new benefits the retiree earns from the Pension Fund will be SIP Benefits.

Q-31 **Does the Pension Fund's transition to the SIP protect it from government oversight? What are some of the fears about how the government will handle current pension plans?**

A-31 The SIP is generally subject to the same rules that apply to the Legacy Plan, so the Pension Fund will never be immune from its government oversight and regulatory compliance obligations.

With more and more multiemployer pension plans in the news because they can no longer afford to pay the benefits they promised, some fear that potential government actions could negatively affect multiemployer pension plans like the Pension Fund by increasing costs and hampering employers' and unions' ability to compete with non-union labor. In particular, the two primary concerns are:

(1) Significant increases to premiums charged by the Pension Benefit Guaranty Corporation (i.e., government-required pension insurance); and
(2) Increasing minimum funding and contribution requirements under the law.

Nonetheless, the best defense against unwanted attention from the government is to maintain a fully-funded plan. Since the SIP is fully funded under most scenarios, the Pension Fund's transition to the SIP may help avoid potential government involvement in the long-term.

DISCLAIMER

Please be aware that these FAQs are only intended to summarize the changes being made to the Pension Fund. All of your benefits under the Pension Fund will continue to be subject to the terms and conditions stated in the Pension Fund's written Plan Document. The Plan Document will be restated in connection with the Pension Fund's transition to the SIP and made available to Participants, Beneficiaries and Alternate Payees upon request to the Fund Office once it has been finalized and approved by the Board of Trustees. You will be provided with an updated Summary Plan Description after the Plan Document has been restated.

Should any of the information provided in these FAQs conflict with the Plan Document or the Summary Plan Description, the terms of the Plan Document will control.