# Introducing the Sustainable Income Pension Benefit

**Beginning with hours worked January 1, 2021, you will earn benefits under a new sustainable income formula. Read this guide for more information about what's changing.**

International Union of Operating Engineers Local 302

# New Benefit Formula
## Effective January 1, 2021

Beginning with hours worked on and after January 1, 2021, you will earn benefits under a new sustainable income pension benefit formula.

- Each year you will accrue a benefit equal to 1.25% x 40% of contribution rate x hours worked. Benefit accruals are directly linked to contributions. Higher contributions increase the annual benefit accrual.
- The formula is different, but the dollar amount you accrue in a year is designed to be higher (assuming you work the same number of hours).

| 2019 | 2020 | 2021 | 2022 & later |
|---|---|---|---|
| 1,500 hours = $38.00 accrual | 1,500 hours = $60.00 accrual | 1,500 hours $79.44* accrual | 1,500 hours $82.88* accrual |

*Assumes your hourly employer contribution is $9.95 January-May then $11.05 beginning June 1, 2021 and you work the same number of hours each month in 2021

- Plus, when the Plan's investments do well, you will too. Unlike the current benefit, after it's earned the new benefit will be adjusted each year based on the Plan's investment returns. When the Plan earns more than 4.5%, your sustainable income pension benefit will automatically increase – during your working years and throughout your retirement. See page 4 for how the adjustment works.

You keep the traditional benefit that you earn through December 31, 2020 – when you retire, you get both the traditional and the sustainable income pension benefits you've earned.

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*When the Plan earns more than 4.5%, your sustainable income pension benefit will automatically increase.*

### What's Not Changing

It's important to understand what's not changing, too.

- You keep the traditional benefit you earn on hours worked through December 31, 2020.
- You don't have to start over when it comes to vesting in the new benefit – all of your vesting service counts for both the traditional benefit and the sustainable income pension benefit.
- The plan's investments continue to be professionally managed (so you are not responsible for investment decisions).
- The sustainable income pension benefit maintains the security of lifelong income like the traditional benefit.
- You can still retire at age 61 with an unreduced benefit as long as you meet the recent work requirement (retire from active service).

## Why We're Making This Change

In the 1990s, the Plan was over 100% funded. However, the last 2 decades have been a roller coaster. First the dot com bubble, then the 2008 financial crisis - each inflicted serious blows to the Plan's funding. Like most pension plans across the country, to make up for these losses and meet our obligation to fund the benefits that had already been promised, we had to reduce the accrual rate for benefits being earned and increase contributions.

Hard as they've been, those actions have been effective. However, the Plan is not protected from running into trouble again down the road. The next economic crisis could put us back in the same place.

The time has come to improve benefits for active members, but it's very important that we do it in a way that lowers risk for the Plan, reduces the burden on future generations and sets the Plan up for long-term sustainability.

# How Benefits Are Calculated
## Under the Sustainable Income Formula

You earn benefits each year you work at least 375 hours:

| 1.25% X 40% of contribution rate X hours worked |
|---|

For example:
Steve's hourly contribution rate is $11.05. If he works 1,500 hours in 2021 his benefit accrual for the year will be $82.88 (1.25% X 40% of $11.05 X 1,500 hours = $82.88). If he works 2,000 hours, his benefit accrual will be $110.50 (1.25% X 40% of 11.05 X 2,000 hours = $110.50).

This is the calculation for his regular retirement benefit paid as a single life annuity (monthly payments for his lifetime). If he retires from active service (meets the recent work requirement), he can retire early with an unreduced benefit at age 61. His regular retirement benefit amount would be reduced if he retires before 61 and/or chooses another form of payment, such as one that provides a benefit to his spouse or beneficiary after his death. If he doesn't retire from active service, his unreduced benefit is not available until 62 for the traditional portion and 65 for the sustainable income portion (see page 9).

Unlike the traditional formula, the sustainable income pension benefits that you accrue are adjusted each year with the Plan's investment returns (see page 4 for how this works).

## No Carryover of Hours

Effective January 1, 2021, there is no carryover of hours from year to year. Any unused hours carried forward from prior years will be credited for benefit purposes on December 31, 2020.

Before, hours were credited in quarter-years for benefit purposes, and hours not used for a quarter credit in a given year were carried over to the next year. In other words, you earned a benefit for each 375-hour "chunk" that you worked. The new formula ensures that all hours will be credited for benefits in the Plan year they are earned (as long as you work at least 375 hours that year). If you work fewer than 375 hours in a calendar year, you will not earn a benefit for that year.

For example:
Let's say you work 1,700 hours in a Plan year. Under the traditional formula, if you did not have any hours "banked" from a prior year, your benefit would have been based on 1,500 hours. The remaining 200 hours (1,700 – 1,500) would have been "banked" for use in a future year. Under the new formula, your benefit is based on the full 1,700 hours.

## Strength in Flexibility

The sustainable income pension benefit is still a defined benefit plan that provides lifelong income – with a twist. The difference is that the benefits have the flexibility to move with the market. Here's how it works:

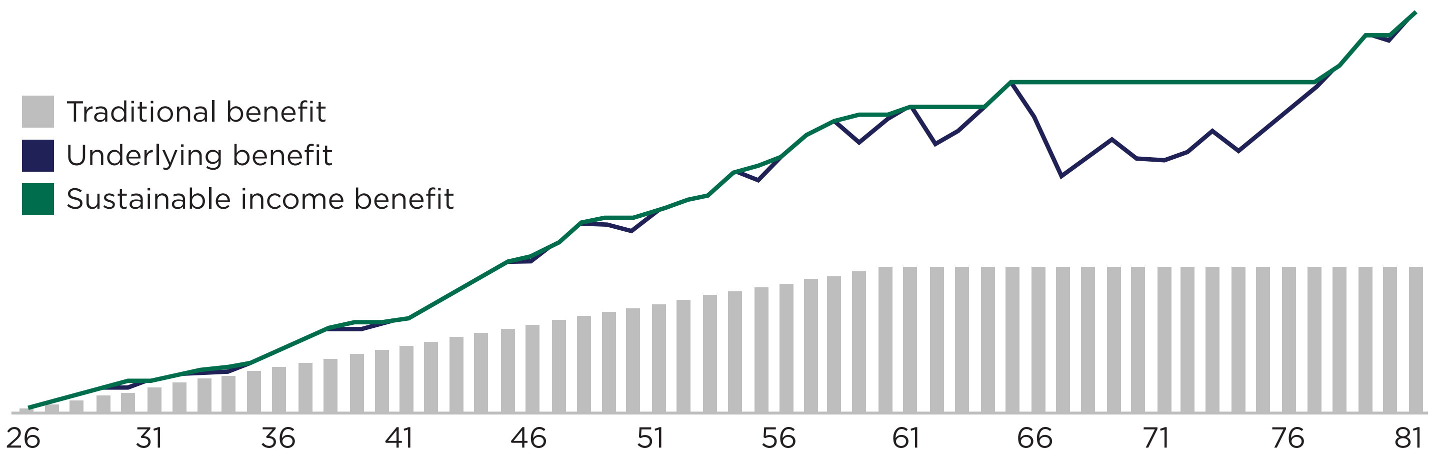
**Good investment returns increase benefits:**
The Plan has a "hurdle rate" of 4.5%. Each year that the Plan's investments earn more than 4.5%, the benefits you have earned under the sustainable income formula to that point go up.

That means during your working years your benefit grows in two ways: with the additional benefit amount you earn each year and, on top of that, with good returns on the Plan's investments. In retirement, your benefit has the potential to continue to grow with the Plan's investments.

Compare that to the traditional benefit, where your benefit grows only with annual accruals while you're working and then stays the same throughout retirement.

**Protection from market risk:**
The flip side is that "underlying" benefits go down if the Plan earns less than the hurdle rate. But, the Plan includes a "rainy-day fund" called the stabilization reserve that can be used to maintain retiree benefits when the market takes a downturn. In the unlikely event the stabilization reserve runs out of funds, benefits will still be paid – but at the "underlying" benefit level (the blue line in the chart).

**Sustainable for the long haul:**
These benefits are designed to stay funded in all market conditions – ensuring the money will be there to pay those benefits despite economic ups and downs and without putting a burden on future generations.




## How the Sustainable Income Pension Benefit Adjusts

### Annual Adjustment Based on Investment Returns

The way the sustainable income pension benefits stay funded in all market conditions is that the underlying benefits adjust with the Plan's investment returns – both up and down. The sustainable income pension benefit has a hurdle rate of 4.5%. Each year, underlying benefits go up, down, or stay the same, based on whether the Plan's investment returns are more than, less than, or the same as the hurdle rate.

If the Plan earns more than 4.5%, underlying benefits go up. If investments earn less than 4.5%, underlying benefits go down, but your earned benefit can be protected by a stabilization reserve (see page 6).

It's the total amount of your underlying sustainable income pension benefit that is adjusted. Say your benefit accrual each year is about $100, but after several years the sustainable income piece of your benefit has climbed to $800 – it's the $800 that is adjusted the next year.

$$\text{Underlying benefit} \times \frac{(1 + \text{investment return})}{(1 + \text{hurdle rate})} = \text{New underlying benefit}$$

For example:
Let's take another look at Steve and assume he has built up a sustainable income pension benefit of $500 per month.

First, at the beginning of the year he'll get his benefit accrual for the hours worked the year before. Let's say he worked 1,500 hours. So, as we showed before, his accrual is $82.88.

$$\$500.00 + \$82.88 = \$582.88$$

Then, his $582.88 benefit is adjusted based on the Plan's investment return from the year before last – let's say it was 6.5%. That's higher than the Plan's 4.5% hurdle rate, so his benefit is going up.

Here's how Steve's benefit is adjusted:

$$\$582.88 \times \frac{(1 + 0.065)}{(1 + 0.045)} = \$594.04$$

Each year, the benefit Steve earned changes with investment returns. That means his benefit has the potential to grow throughout his lifetime, even in retirement, and provide some protection from the loss of buying power that comes with inflation.

## Maximum increase is 8% per year

Benefit increases are capped at a maximum of 8% per year. When returns are greater than 12.86% [(1 + 0.1286) ÷ (1 + 0.045) – 1 = 8%], the benefit increase will be 8%. The return in excess of 12.86%, plus some contributions, will be used to build reserves for the future. Over the last 25 years, the Plan has earned over 12.86% in nine of those years, meaning the investment returns would have added to the Plan's reserves in just over a third of the time.

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*Sustainable for the long haul*

**The fact that benefits adjust with the Plan's investment returns is what makes this formula sustainable. Instead of promising benefits that depend on an educated guess about what kind of return the Plan's investments will get in the future, the benefits are based on the return that the Plan actually gets. No surprises and no burden on future generations to fund benefits earned in the past. And, benefits automatically increase when the Plan's investments do well.**

## The Stabilization Reserve

To reduce the impact of investment downturns, the Plan has a "rainy-day fund" called a stabilization reserve that can be used to prevent your sustainable income pension benefit from dropping whenever the underlying benefit is below the high-water mark. In other words, when poor returns reduce benefits the idea is that your pension check won't change. You'll continue to receive your fully-funded underlying benefit. In addition, if Trustees authorize a shore up, the stabilization reserve can be used to make up the difference between what you were receiving before and the adjusted amount.

The graph below shows how the stabilization reserve would have worked for a participant if the investment returns from 1934-1989 are repeated, assuming he or she earned the current traditional benefit until age 31 and the new sustainable income pension benefit after that.

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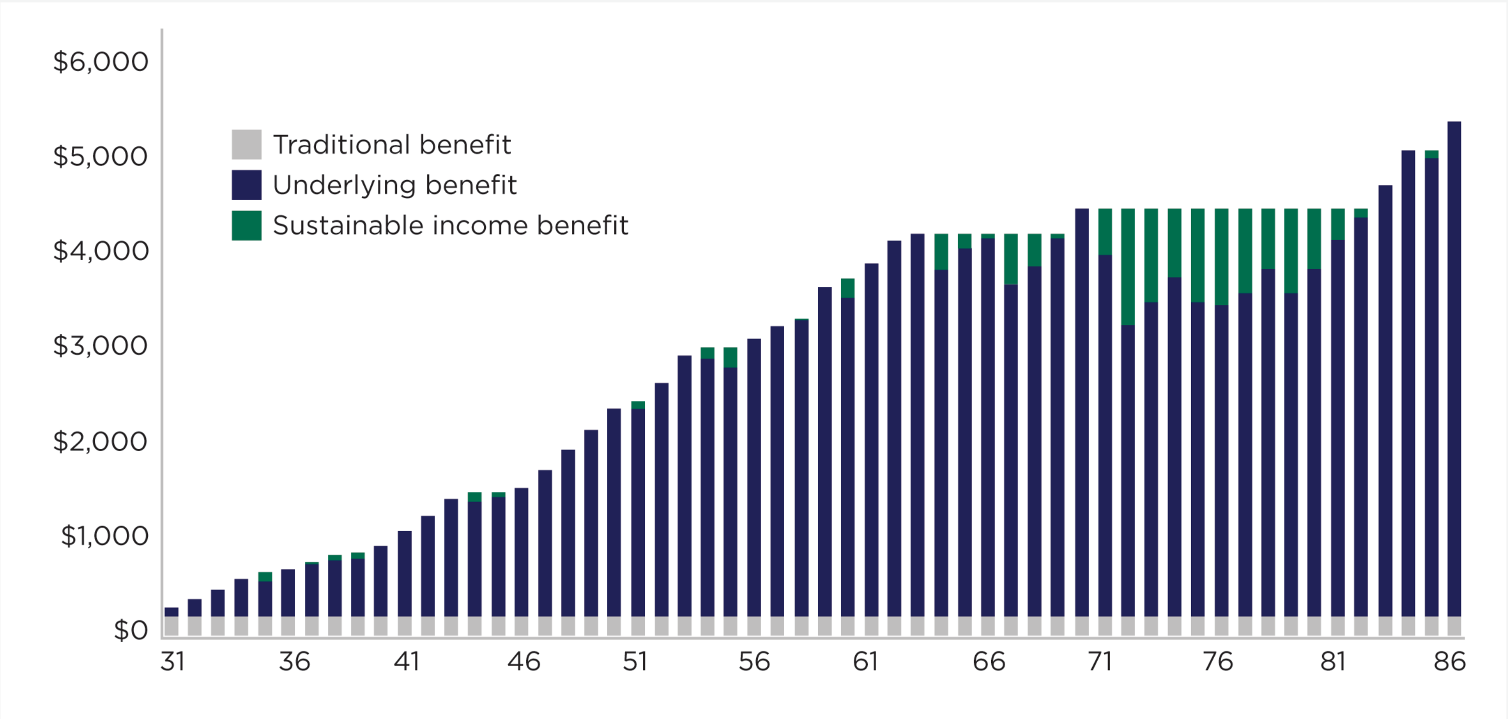



The gray bars show the traditional benefit. Layered on top of that is the underlying benefit income shown in blue bars. The shore-up payments, shown in green bars, are paid from the stabilization reserve to keep the benefit from falling when the underlying benefit dips below the previous high-water mark. In the unlikely event the stabilization reserve runs out of funds, benefits will still be paid – just at the underlying benefit level (the total of the gray and blue bars).

## Benefit adjustment date

Beginning on January 1, 2023, your accrued sustainable income pension benefit will be adjusted on January of every year, based on the Plan's investment return for the calendar year before last (in other words, your sustainable income pension benefit as of January 1, 2023 will be adjusted using the Plan's investment return for the calendar year 2021). This is because the return for 2022 won't be known until after January 1, 2023.

## How the Sustainable Income Pension and Traditional Benefit Formulas Compare

Here are a few key points about how the sustainable income pension formula beginning in 2021 compares to the traditional benefit formula that applied prior to 2021:

- Higher benefit accrual: The initial benefit you accrue per hour worked is higher under the sustainable income formula than it has been recently under the traditional benefit formula.
- Sustainable income pension benefits can grow over time with good returns, even in retirement – protection the traditional benefit doesn't have.
- Changing the benefit reinforces the security of the Plan: Because the sustainable income pension benefit adjusts with the Plan's actual investment returns, the funding for the Plan is more stable and secure. This protects future generations and sets the Plan up for long-term sustainability.

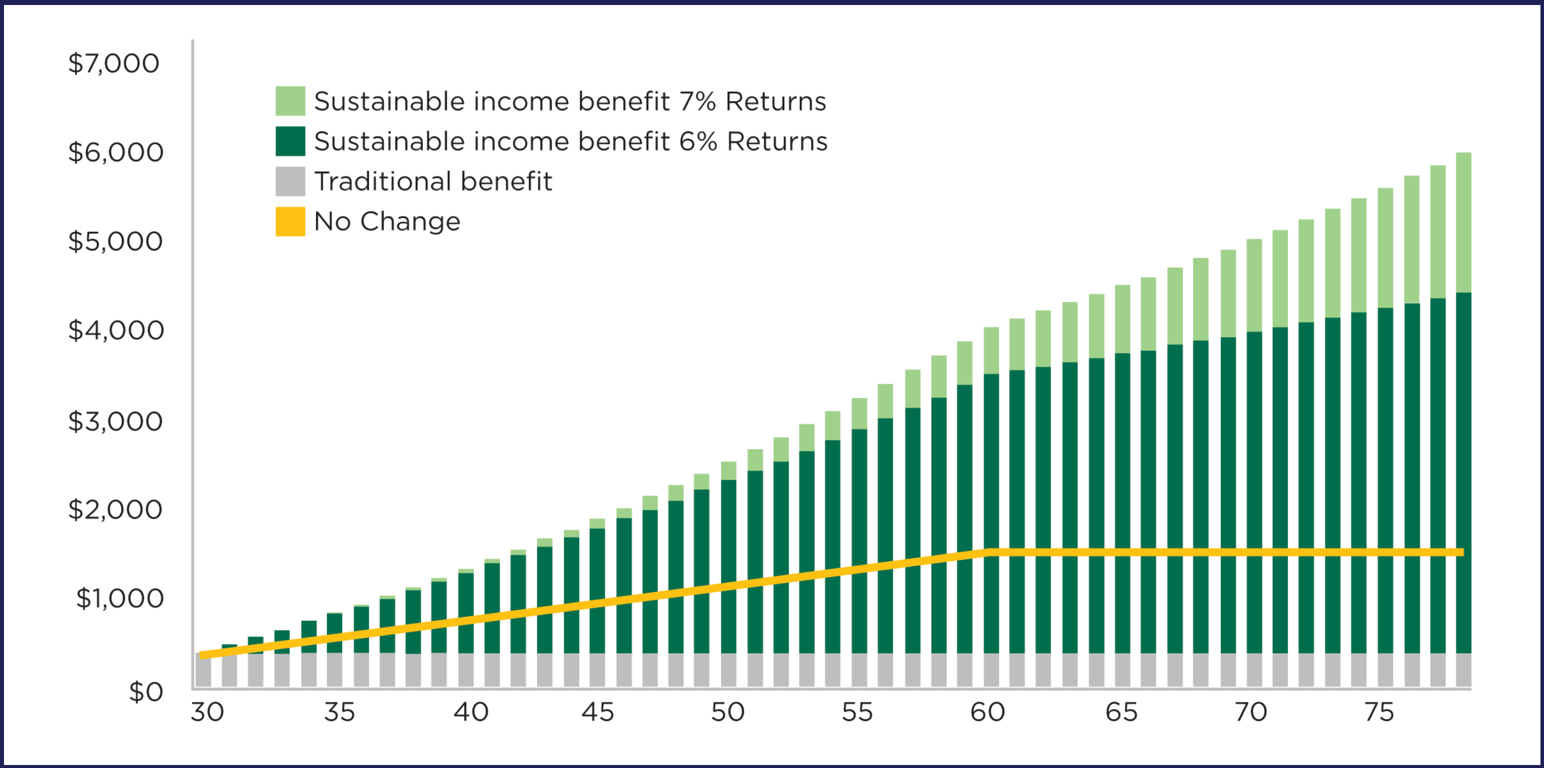
Example 1

Steve has participated in the Plan for 10 years when the formula changes and he has accrued a traditional benefit of $400. He works 1,500 hours per year for a total of 40 years in the Plan and retires at age 61.

The chart below shows a range of projected monthly benefit amounts for Steve through age 80. The "No change" line shows what his benefit would have been if the traditional benefit formula had stayed in place at the 2019 level (recent benefit increases were approved based on the change to the sustainable income pension formula).

At age 61, Steve's monthly benefit could be $3,160 if the Plan earned 6.0% every year; if the Plan earned 7.0% every year it could be $3,740. If Steve's benefit had been earned entirely under the traditional benefit formula, his benefit would have been $1,520 per month.

By age 80, Steve's benefit could increase to $4,150 if the Plan earned 6.0% every year; or $5,860 if the Plan earned 7.0% every year. Under the traditional benefit, it would have remained $1,520 per month.




This example shows the benefit as an unreduced single life annuity payable at age 61 (the amount would be adjusted if he retired earlier, did not meet the recent work requirement and/or chose another form of payment such as a joint and survivor annuity). It shows a range of returns for the Plan's investments. In reality, the benefit will depend on actual investment returns.

Example 2

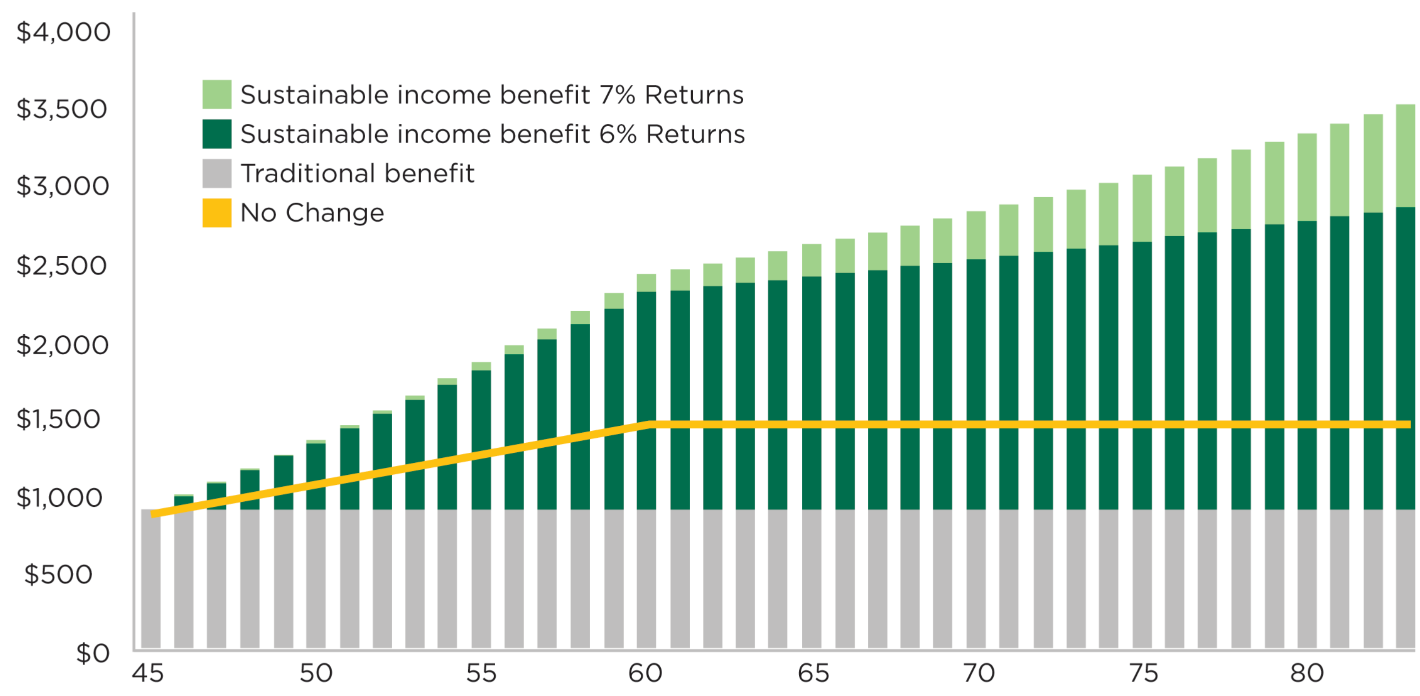
Dan has participated in the Plan for 20 years when the formula changes and he has accrued a traditional benefit of $900. He works 1,500 hours per year for 35 years in the Plan and retires at age 61.

The chart below shows a range of projected monthly benefit amounts for Dan through age 85. The "No change" line shows what his benefit would have been if the traditional benefit formula had stayed in place at the 2019 level (recent benefit increases were approved based on the change to the sustainable income pension formula).

At age 61, Dan's monthly benefit could be $1,420 if the Plan earned 6.0% every year; if the Plan earned 7.0% every year it could be $1,550. If Dan's benefit had been earned entirely under the traditional benefit formula, his benefit would have been $1,450 per month.

By age 80, Dan's benefit could increase to $1,860 if the Plan earned 6.0% every year; or $2,420 if the Plan earned 7.0% every year. Under the traditional benefit, it would have remained $1,450 per month.

*At age 61, Dan's monthly benefit could be $1,420 if the Plan earned 6.0% every year; if the Plan earned 7.0% every year it could be $1,550.*




This example shows the benefit as an unreduced single life annuity payable at age 61 (the amount would be adjusted if he retired earlier, did not meet the recent work requirement and/or chose another form of payment such as a joint and survivor annuity). It shows a range of returns for the Plan's investments. In reality, the benefit will depend on actual investment returns.

# Other Plan Changes

In general, the current plan rules will continue to apply. As described below, in some areas your frozen traditional benefit earned through December 31, 2020 and your sustainable income pension (SIP) benefit earned beginning January 1, 2021 are treated differently. 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.

## Shorter Vesting Service Requirement

Currently, you become vested when you complete 5 years of service without a permanent break in service. Now, as long as you work at least one hour of service on or after January 1, 2021, only 3 years of service without a permanent break in service will be required for vesting in both the traditional and sustainable income pension benefits. For vesting purposes, you earn a year of service for each calendar year you work at least 870 hours.

The service you've already earned counts for both the traditional and sustainable income pension benefits. This means that if you're already vested in your traditional benefit or if you have at least 3 years of service as of December 31, 2020 and work at least one hour on or after January 1, 2021, you will be immediately vested in your traditional benefit and any sustainable income pension benefit you earn after January 1, 2021.

## Normal Retirement

If you work at least one hour on or after January 1, 2021 and you have at least 4,350 hours or 3 pension credits, normal retirement age is:

- 62 for the traditional portion of your benefit (this includes all benefits earned before January 1, 2021) and
- 65 for the sustainable income portion earned on and after January 1, 2021.

If you don't reach normal retirement age as described above, as long as you have not incurred a permanent break in service, your normal retirement age would be the later of the first of the month following the month in which you attain age 65 or the first day of the Plan Year in which you reach the 5th anniversary of participation.

***You can retire as early as age 61 with an unreduced benefit, if you meet the requirements.***

## Early Retirement

### What's not changing about early retirement

To be eligible to receive your benefit before normal retirement age, you must be at least age 55 and have 10 pension credits – that is not changing. (You earn a pension credit for each calendar year in which you work at least 1,500 hours.) The recent work test is not changing either – **the factors used to adjust your benefit for early retirement are more favorable if you retire from active service**. In short, if you are eligible for early retirement and retire from active service in the Plan, you can retire at age 61 with an unreduced benefit. If you retire before 61, your benefit is reduced but by less than if you don't meet the recent work test. This applies to your benefits earned both before and after January 1, 2021.

**If you DO meet the recent work test**

| Age | |
|---|---|
| 55 | 82% |
| 56 | 85% |
| 57 | 88% |
| 58 | 91% |
| 59 | 94% |
| 60 | 97% |
| 61 | 100% |
| 62 | 100% |
| 63 | 100% |
| 64 | 100% |
| 65 | 100% |

**Recent work test**
**3,000 hours worked in the 60 months before you start your benefit = unreduced benefit at age 61 and more favorable early retirement factors from age 55 through 60**

## What if you don't meet the recent work requirement when you retire?

### What is changing about early retirement

Unreduced benefits are not available until normal retirement age and the reduction for early retirement is greater for those who do not meet the Plan's recent work test at the time they choose to start their benefit.

Normal retirement age for benefits earned before 2021 (traditional) is 62. For benefits earned beginning 2021 (sustainable income) it's 65. For example, if you have not been active in the Plan and you retire at 62, the traditional portion of your benefit would unreduced but the SIP portion would be reduced when your initial monthly payment is calculated.

For each part, if you retire before your normal retirement age, your monthly benefit will equal your normal retirement benefit, multiplied by the factor shown below. Both parts of your benefit must start on the same date.

*To be eligible to receive your benefit before normal retirement age, you must be at least age 55 and have 10 pension credits.*

**If you do NOT meet the recent work test**

| Age | For Benefits Earned Before January 1, 2021* | For Benefits Earned On or After January 1, 2021 |
|---|---|---|
| 55 | 54.69% | 47.83% |
| 56 | 59.38% | 51.16% |
| 57 | 64.55% | 54.79% |
| 58 | 70.26% | 58.74% |
| 59 | 76.58% | 63.07% |
| 60 | 83.57% | 67.82% |
| 61 | 91.34% | 73.04% |
| 62 | 100.00% | 78.78% |
| 63 | 100.00% | 85.14% |
| 64 | 100.00% | 92.18% |
| 65 | 100.00% | 100.00% |

*Applies to annuity start dates on or after July 1, 2020

For example
Jamie works in the Plan for 10 years but then leaves the industry. Years later, he decides to start his pension benefit at age 60. At that time, Jamie has accrued a traditional benefit of $500 and a sustainable income pension benefit of $500. He has not been actively working under the Plan and does not meet the recent work test. Here's how Jamie's initial monthly benefit paid as a single life annuity is calculated:

**Total initial monthly benefit: $756.95**

| Sustainable income pension benefit: | Traditional benefit: |
|---|---|
| $500.00 X 67.82% = $339.10 | $500.00 X 83.57% = $417.85 |

The $339.10 portion of Jamie's benefit will continue to adjust with the Plan's investment returns, while the $417.85 portion will remain fixed. If Jamie chose a different form of payment, his benefit amount would be adjusted further.

### One Pension Credit per Year Maximum

Pension credits are used to determine your eligibility for retirement (they are NOT used for your benefit under the new formula). Effective January 1, 2021, the maximum number of pension credits you can earn in a calendar year is one.

For example
Previously, if you worked 1,900 hours in a year you would have earned 1.25 pension credits. Now, if you work 1,900 hours, you will earn 1.0 pension credit.

# Glossary

**Benefit accrual**
The benefit amount you earn each year you work at least 375 hours

**High water-mark**
This is your highest sustainable income pension benefit amount to date

**Hurdle rate**
The investment return threshold of 4.5% that must be reached to increase sustainable income pension benefits each year

**Stabilization reserve**
The money the Plan holds in reserve that can be used to shore up sustainable income pension benefit payments and protect them from going down

**Sustainable income pension benefit**
The portion of your accrued pension benefit earned on and after January 1, 2021 under the new sustainable income formula

**Traditional benefit**
The portion of your accrued pension benefit earned through and frozen on December 31, 2020 under the traditional benefit formula

**Underlying benefit**
The sustainable income pension benefit without the shoring up provided by the stabilization reserve

**Vesting**
The right to receive your pension benefit when you reach normal retirement age even if you are no longer an active participant at that time

This guide contains an overview of the Engineers – A.G.C. Pension Plan of the Inland Empire. Although we have made every effort to ensure this guide is accurate, provisions of the official plan documents will govern in the case of any discrepancy. This guide also serves to satisfy the IRC 204(h) notice requirement in regard to changes which result in a reduction to any future benefit accruals.

More detailed information about the Plan is provided in the formal plan document, a copy of which can be obtained by providing a written request to the Trust Office. Certain features of the new variable annuity plan design described herein allow for potential benefit shore-up payments, which are funded with separate reserves established by the Board of Trustees. The strategic use of the Plan's funding reserves is a material part of the new plan design, but shore-up payments are not formally part of the accrued benefit under Code Section 411(d)(6). The use of reserves to fund these shore-up payments on a temporary basis must be authorized by the Board of Trustees and is predicated on having sufficient funding reserve levels.

For more information on your plan benefits, please refer to the Summary Plan Description which is available at https://www.wa-idengineerstrustfunds.com.