the Pension Fund

A Foundation for Success

Plan design changes coming

June 1, 2024

A Note From the Trustees

Dear Member,

We know that you're relying on your pension to provide you financial security once you retire. Our goal as Trustees is to protect your pension benefit and to sustain the Pension Fund for years to come.

In that spirit, we're making a change to the way your pension benefit will be calculated—and we think you're going to like it. Starting June 1, 2024, the pension plan design will change to a Variable Annuity Pension Plan (VAPP). The amount of your earned benefit prior to June 1, 2024 will not change. We'll explain what those technical terms mean and how the benefit design will change in this guide. To summarize, your future pension accruals will change based on the performance of the Fund's investments. Right now, the amount of your benefit remains static once you've accrued it—even after you retire.

Naturally, any changes to your pension benefit will raise questions. This guide includes information about how your pension is calculated now, how it'll be calculated going forward, key terms, and more. You can also reach out to the Fund Office at **(262) 784-7880**.

We're excited about this change! Once you've read a bit about it, we think you'll agree that the VAPP is a better option for your finances and the Fund's long-term health.

Sincerely,

The Board of Trustees
Building Trades United Pension Trust Fund

Highlights

Our new pension plan design, the Variable Annuity Pension Plan (VAPP), will take effect on June 1, 2024. Here's what you need to know:

- **Two formulas, one benefit.** Going forward, your total benefit under the Plan will include benefits you earned prior to June 1, 2024, under the Legacy Plan, plus benefits you earn under the VAPP on and after June 1, 2024.
- **Your VAPP benefit is variable.** Under the VAPP, benefit accruals will automatically adjust each year based on the investment returns on the Plan's assets over the previous five years. This means that VAPP benefits may increase or decrease from one year to the next. We expect your benefit under the VAPP design will be higher in the long run versus the Legacy Plan design.
- **Adjustments will be based on a 6% return.** We're establishing a "hurdle rate" of 6% to determine whether VAPP benefits increase or decrease. If our five-year average returns are above 6%, VAPP benefits will increase. If not, they'll decrease.

  Note: Historically, the Fund has surpassed a 6% rate of return more often than not.
- **Legacy benefits won't change.** The benefits you earned under the Legacy Plan as of June 1, 2024 will remain the same.
- **Other plan features aren't changing.** This new design won't affect early retirement eligibility, normal retirement age and eligibility, vesting, longevity benefits, survivor benefits, or disability benefits.
- **No changes for retirees.** If you're retired by June 1, 2024, there will be no change to your pension. The VAPP only applies to benefits earned after May 31, 2024.

Adjustments occur a year later

Our first plan year under the VAPP will be June 1, 2024, to May 31, 2025. The first benefit adjustment will happen on June 1, 2026.

Key Terms

- **Actual rate of return:** The percentage increase or decrease of the Fund's return on investments during a plan year.
- **Adjustment factor:** A decimal number multiplied by the amount of your variable pension benefit used to adjust the total amount up or down based on the performance of the Fund's investments during a plan year. If the adjustment factor is greater than 1, your benefit will increase the next year. If the adjustment factor is less than 1, your pension benefit will decrease the next year.

  (1 + five-year smoothed rate of return) ÷ (1.06)

- **Benefit-bearing contribution rate:** An amount that your employer agreed to contribute to the Fund to fund your pension during collective bargaining for each hour you work in covered employment. Currently, this amount is $1.00 less than the total contribution rate.
- **Five-year smoothed rate of return:** A rate of return based on the prior five years actual rate of return for the Fund is used to calculate your variable pension benefit.
- **Hours of service:** The number of hours you work during a plan year.
- **Hurdle rate:** The "break even" 6% rate of return for the Fund's investments. If the Fund's five-year smoothed rate of return for a plan year is above 6%, your variable benefit increases. If it's below 6%, your variable benefit decreases.
- **Legacy Plan:** Our pension plan design prior to June 1, 2024, a defined benefit plan, in which the amount of your benefit did not change each year based on the Fund's investment returns.
- **Plan year:** The one-year period between each June 1-May 31.
- **Variable Annuity Pension Plan (VAPP):** Our pension plan design effective June 1, 2024, in which the amount of your benefit changes from year to year based on the Fund's investment returns.

Why We're Making This Change

Having a pension to rely on at the end of your career is valuable—and rare. Most Americans don't have the advantage of a guaranteed monthly benefit in retirement. That makes our Plan more important than ever. The Trustees want to ensure that you and future members can count on the Plan, which requires close attention and strategic thinking.

After careful consideration, the Trustees determined that the VAPP accomplishes three essential goals better than the Legacy Plan:

- **Guarding your pension benefit against inflation.** Under the Legacy Plan, the amount of your accrued benefit was fixed. Even as costs go up over time, your Legacy Plan benefit remains the same. The VAPP offers the expectation that your pension benefit will increase, which should help your pension go further once you retire.
- **Protecting the Fund's finances.** By increasing pension benefits in years when the Fund's investments do well, we can share our success with members. Decreasing pension benefits when the Fund's investments do poorly helps protect the Fund from stretching our money too thin.
- **Attracting new employers to our Plan.** The VAPP makes more financial sense, and employers know it! By encouraging unorganized employers to join the Plan, the Fund receives more contributions, and more tradespeople receive pension benefits in retirement. It's a win-win.

How the VAPP Works

Ensuring that you have reliable income during your retirement can get really technical—as you're about to see! Please contact the Fund Office if you have additional questions about how the new pension plan design works. It's essential that you understand it.

Note: The following examples are hypothetical and for illustrative purposes only.

Example 1: Calculating the VAPP benefit

In this section, we'll introduce you to Josh, a participant in our Plan. He's also the star of a video explaining the VAPP on our website, **thepensionfund.com**. Let's start with Year 1 under the VAPP.

Step 1: Determine Josh's base accrual for the plan year.

Josh works 1,300 hours every year. His collective bargaining agreement sets a benefit-bearing contribution rate of $11.00 per hour, and all members accrue a benefit of $12.68 for each benefit-bearing contribution dollar for every 1,000 hours worked.

We'll use three steps to figure out how much Josh earned toward his pension in Year 1:

a. Hours worked ÷ 1,000
1,300 hours ÷ 1,000 = 1.3

b. Accrual rate x Benefit-bearing contribution rate per hour
$12.68 accrual rate x $11.00 benefit-bearing contribution rate = $139.48

c. Answer to **a** x Answer to **b** = Base accrual
1.3 x $139.48 = **$181.32 base accrual**

Step 2: Determine the adjustment factor for Josh's accrual in Year 1.

Remember, the Fund has set a hurdle rate of 6%. If the five-year smoothed rate of return is higher than that, Josh's VAPP benefit increases. If the five-year smoothed rate of return is lower than 6%, his VAPP benefit decreases. Let's say the five-year smoothed rate of return this year is 10%. Josh's VAPP benefit will increase! By calculating the adjustment factor, we'll figure out the effect on Josh's VAPP benefit.

(1 + smoothed rate of return) ÷ (1 + hurdle rate) = Adjustment factor

1.10 ÷ 1.06 = **1.0377 adjustment factor**

Step 3: Adjust the VAPP benefit.

Now for the exciting part! Let's adjust Josh's VAPP benefit. With the VAPP, he'll be a little better off than under the Legacy Plan.

Current VAPP benefit x Adjustment factor = Adjusted VAPP benefit

$181.32 x 1.0377 = **$188.16 adjusted VAPP benefit**

Follow along to examples 1 and 2 with the video on our website.

Example 2: Josh's benefit in Year 2.

We got off to a great start for the first year. Now let's see how the VAPP does over time—in good years and not-so-good ones. Let's go through the same process for another year—a little faster this time but with a tougher year in the financial markets. You may want to refer to the above example.

- The plan earns a five-year smoothed rate of return of **5%** on its investments.
- Since Josh works another 1,300 hours, his base accrual is the same as before: **$181.32**.

Step 1: Add Josh's Year 2 base accrual to his total VAPP benefit.

Right now, Josh's total VAPP benefit includes only Year 1, but, as time goes on, it'll get bigger and bigger. We'll add his Year 2 base accrual to it now.

$188.16 VAPP benefit + $181.32 base accrual for Year 2 = **$369.48 total VAPP benefit**

Step 2: Find the adjustment factor.

1.05 ÷ 1.06 = 0.9906

Step 3: Adjust the VAPP benefit again.

$369.48 x 0.9906 = **$366.01 total adjusted VAPP benefit**

Example 3: Josh's benefit over 10 years

The Fund will calculate Josh's VAPP benefit the same way every year—even after he retires. Let's put it all together and see how Josh's VAPP benefit does over the 10 years. We'll also show how the VAPP benefit compares to the Legacy Plan benefit.

Plan Year	Base Accrual	Five-Year Smoothed Rate of Return	Adjustment Factor	Pre-Adjusted VAPP Benefit	Total Adjusted VAPP Benefit	VAPP Compared to Legacy Plan
Year 1	$181.32	10%	1.0377	$181.32	$188.16	+ $6.84
Year 2	$181.32	5%	0.9906	$369.48	$366.01	+ $3.37
Year 3	$181.32	7%	1.0094	$547.33	$552.47	+ $8.51
Year 4	$181.32	11.5%	1.0519	$733.79	$771.87	+ $46.59
Year 5	$181.32	4%	0.9811	$953.19	$935.17	+ $28.57
Year 6	$181.32	6.5%	1.0047	$1,116.49	$1,121.74	+ $33.82
Year 7	$181.32	2.5%	0.9670	$1,303.06	$1,260.06	- $9.18
Year 8	$181.32	8%	1.0189	$1,441.38	$1,468.62	+ $18.06
Year 9	$181.32	6%	1.0000	$1,649.94	$1,649.94	+ $18.06
Year 10	$181.32	7.5%	1.0142	$1,831.26	$1,857.26	+ $44.06

Example 4: Josh retires at the end of Year 10

When Josh stops working, pension accruals also stop. But his total VAPP benefit is still adjusted each year based on the Plan's investment results. Here's how the VAPP works to protect Josh from inflation even after he retires.

Plan Year	Base Accrual	Five-Year Smoothed Rate of Return	Adjustment Factor	Pre-Adjusted VAPP Benefit	Total Adjusted VAPP Benefit	VAPP Compared to Legacy Plan
Year 10	$181.32	7.5%	1.0142	$1,831.26	$1,857.26	+ $44.06
Josh retires						
Year 1 Retired	$0	9%	1.0283	$1,857.26	$1,909.82	+ $96.62
Year 2 Retired	$0	7%	1.0094	$1,909.82	$1,927.77	+ $114.57
Year 3 Retired	$0	3.5%	0.9764	$1,927.77	$1,882.27	+ $69.07
Year 4 Retired	$0	8.5%	1.0236	$1,882.27	$1,926.69	+ $113.49
Year 5 Retired	$0	10.5%	1.0425	$1,926.69	$2,008.57	+ $195.37

Retirees Are Unaffected

The VAPP won't apply to any benefits earned prior to June 1, 2024, which means current retiree benefits will continue under the Legacy Plan. The VAPP will apply only to retirees who decide to return to work after June 1, 2024.

Nothing Else Is Changing

The formula that the Fund uses to calculate your pension is the only change effective June 1, 2024. All other provisions of your pension plan will remain the same.

- Eligibility, years of service, vesting, early retirement options, and payment options will remain the same.
- All benefits you accrued prior to June 1, 2024, will not change.
- Employers will continue making contributions to the Fund as promised in your collective bargaining agreement.

Refer to your Summary Plan Description for information about the terms of your pension prior to June 1, 2024. Contact the Fund Office at **(262) 784-7880** with questions.

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