Financial Update for Your Retirement Plan

The purpose of this newsletter is to update you about the financial condition of the Northwest, FCS Retirement Plan (Retirement Plan). This information is intended for:

- Active employees accruing benefits
- Retirees receiving benefits
- Former employees entitled to future benefits

This table summarizes the current status and recent history. Sections I and II that follow explain the numbers in the table.

The Retirement Plan’s trust fund assets were approximately $70 million as of Dec. 31, 2018. The investment earnings loss for 2018 was $1.7 million (-2.48%).

This newsletter addresses two issues regarding the Retirement Plan:

- Plan Funding and Employer Contributions
- Accounting Expense

I. Plan Funding and Employer Contributions

The ultimate cost of the Retirement Plan equals benefits actually paid, plus administrative expenses, less investment earnings (or plus investment losses). The total cost of the Retirement Plan is funded by Northwest, FCS. No employees or retirees are required or allowed to contribute to the Retirement Plan.

Funding and accounting rules determine how to allocate the costs each year. Our Retirement Plan actuaries determine the current year allocation of the funding cost based on estimates of future experience, including interest rates and growth in future levels of compensation.

In 2019, the funding interest rate assumption was changed from 6.00% to 5.75% to reflect current long-term capital market assumptions. In addition, the funding policy for the Retirement Plan was changed in 2016 to include a minimum contribution of $1 million for the 2016 through 2019 plan years.

The funding policy for Northwest, FCS is to make a cash contribution equal to the Normal Cost (value of benefits accrued in the calendar year) plus an additional amount based on a five-year amortization of the prior year’s unfunded liability. For the 2016 through 2019 plan years, the funding policy also includes a minimum contribution of $1 million.

Northwest, FCS is committed to making contributions based on the aggregate benefit accruals for the current year and paying down any annual funding shortfalls over five years.

Future funding comes from either employer cash contributions or asset returns in excess of our assumed 5.75% rate of return.

As of Jan. 1, 2018, the Retirement Plan’s funded status was about 118%. As of Jan 1, 2019, the Retirement Plan’s funded status was about 102%.

The decrease in funded level was primarily caused by less than assumed investment earnings (i.e., less than 5.75%). The significant contribution of $1 million by Northwest, FCS in 2018 helped maintain a healthy funded level. Northwest, FCS intends to contribute another $1 million into the Retirement Plan in 2019.

Bottom Line

More than $70 million was held in the trust fund as of Dec. 31, 2018, to pay benefits for current and future retirees in the Retirement Plan. By law, that money may not be used for any purpose other than providing benefits to participants and their beneficiaries, and paying reasonable administrative expenses of the Retirement Plan.

By the Numbers: Northwest, FCS Retirement Plan ($ in millions)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Employers’ Contribution During Year</td>
<td>$1</td>
<td>$1</td>
<td>$5</td>
<td>$3</td>
</tr>
<tr>
<td>2. Market Value of Assets End of Year</td>
<td>$70</td>
<td>$77</td>
<td>$72</td>
<td>$68</td>
</tr>
<tr>
<td>I. Funding Basis: As of Jan. 1</td>
<td></td>
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<tr>
<td>Long-Term Rate of Return Assumption</td>
<td>5.75%</td>
<td>6.00%</td>
<td>6.00%</td>
<td>6.00%</td>
</tr>
<tr>
<td>3. Accrued Liability (Current service; projected compensation)</td>
<td>$70</td>
<td>$70</td>
<td>$72</td>
<td>$75</td>
</tr>
<tr>
<td>4. Accrued Benefit Liability (Current service and compensation)</td>
<td>$69</td>
<td>$65</td>
<td>$67</td>
<td>$66</td>
</tr>
<tr>
<td>5. Funded Percentage (Item 2 divided by item 4)</td>
<td>102%</td>
<td>118%</td>
<td>108%</td>
<td>102%</td>
</tr>
<tr>
<td>II. Accounting Basis: As of Dec. 31</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Discount Rate Assumption</td>
<td>4.26%</td>
<td>3.59%</td>
<td>4.06%</td>
<td>4.31%</td>
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<tr>
<td>6. Projected Benefit Obligation (Current service; projected compensation)</td>
<td>$78</td>
<td>$86</td>
<td>$86</td>
<td>$87</td>
</tr>
<tr>
<td>7. Accumulated Benefit Obligation (Current service and compensation)</td>
<td>$78</td>
<td>$85</td>
<td>$84</td>
<td>$85</td>
</tr>
<tr>
<td>8. Funded Percentage (Item 2 divided by item 7)</td>
<td>91%</td>
<td>91%</td>
<td>85%</td>
<td>79%</td>
</tr>
</tbody>
</table>

Call John Hancock Participant Center

- Representatives are available by calling 1-800-294-3575 on any New York Stock Exchange business day, Monday through Friday from 7 a.m. to 9 p.m. (Central).

Check Out Online Tools Available Through John Hancock

- Looking for help mapping your retirement goals? Check out the tools and resources available under the My Learning Center tab at mylife.jhrps.com.
Additionally, the money in the trust is invested for the long-term according to our investment policy, and any earnings from those investments will also be available to pay benefits. Long-term is typically defined as 10 or more years. The investment policy is subject to change. All investments are subject to risk and uncertainties. Losses or under-performance in the markets could cause a loss of investments.

Q&A: Funding

How Are Benefits Provided for in the Retirement Plan Funded?
Northwest, FCS contributes money to a tax-exempt trust. These employer contributions, along with any investment earnings, are used to pay benefits to participants and their beneficiaries as they come due.

How is the Retirement Plan’s Long-Term Funded Status Developed?
Each year our Retirement Plan actuaries calculate two sets of long-term liabilities for the Plan. The Retirement Plan actuaries develop these liabilities using a long-term assumed asset return of 5.75%. First, the Accrued Benefit Liability is determined. This liability represents the value of all future benefits owed to participants, based on their pay and service with the Northwest, FCS through Dec. 31, 2018. This year the Accrued Benefit Liability is $69 million. On this basis, the Retirement Plan has 102% of the money needed to pay benefits to all current and former employees.

We also calculate a liability that includes the cost of expected future compensation increases because many participants are still earning benefits and their average compensation, when they retire, is likely to be higher than what it is now. This second liability is called the Accrued Liability, which is used to calculate the annual cash contribution. This year the Accrued Liability is $70 million.

II. Accounting Expense
The Accumulated Benefit Obligation (or "ABO") and the Projected Benefits Obligation (or "PBO") liabilities are determined each year based on accounting rules. The rules require us to value the Retirement Plan liability using a fluctuating discount rate tied to corporate bond yields as of Dec. 31, 2018, rather than our expected long-term asset return.

Given the recent bond market, this discount rate was 4.26% as of Dec. 31, 2018 (up from 3.59% for 2017). The accounting liabilities are different (and higher) than our long-term funding liabilities because this discount rate is much lower than the long-term funding rate of 5.75%.

As of Dec. 31, 2018, the ABO for the Retirement Plan was approximately $78 million. The ABO represents what the Retirement Plan currently owes to participants and their beneficiaries based on their pay and service with the District through Dec. 31, 2018. The ABO is similar to the Accrued Benefit Liability (described in the previous section on Plan Funding), but is determined using market interest rates (4.26% as of Dec. 31, 2018) rather than the long-term interest rate assumption of 5.75%.

Many participants are still earning benefits, and their average compensation when they retire is likely to be higher than what it is now. Therefore, the Retirement Plan will need more money in the future than it needs right now to pay benefits. The PBO, approximately $78 million as of Dec. 31, 2018, takes into account the expected growth in compensation and liabilities, making assumptions about future compensation levels for participants.

The PBO is similar to the Accrued Liability (previously described), but is determined using market interest rates (4.26% as of Dec. 31, 2018) rather than our long-term interest rate assumption of 5.75%.

Q&A: General

Who is the Sponsor of the Retirement Plan?
The Retirement Plan is sponsored by Northwest, FCS.

Can the Benefit Formula be Changed?
The Farm Credit Foundations Plan Sponsor Committee has the authority to amend the terms and conditions of the Retirement Plan. However, certain amendments, such as amendments that would change the benefit formula or terminate the Retirement Plan, must be approved by the Northwest, FCS Board of Directors and any changes cannot reduce benefits already earned.

How Many Participants are in the Retirement Plan?
As of Dec. 31, 2018, there were 420 participants in the Retirement Plan:

- 14 active employees
- 2 former employees with vested benefits
- 404 retirees (or their beneficiaries) receiving benefit payments

How Are the Assets of the Retirement Plan Invested (Liability Driven Investments)?
Plan assets are now managed by a process that we refer to as Liability Driven Investments or LDI. LDI is a strategy that uses the plan’s unique liabilities as the benchmark for allocating assets with the objective to ultimately match plan asset interest rate sensitivity with that of the plan’s liabilities. The strategy as described below is designed to reduce investment risk as the plan becomes better funded; this is achieved through a dynamically driven allocation process that measures assets and liabilities daily.

The Plan assets are divided into two sub-portfolios that are designed to implement the policy – 43% Return Seeking assets and 57% Liability Hedging assets:

- Return-Seeking portfolio that is primarily invested in equities to deliver performance in excess of the plan’s liability growth rate. As the plan becomes better funded, the amount allocated to equities and other return seeking assets will be reduced.
- Liability Hedging portfolio that is primarily invested in actively managed intermediate-term and long-term investment grade corporate bonds to hedge interest rate risk compared with the plan’s liabilities. The portfolio will progressively increase in size as the plan becomes better funded.

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