



Your Kaiser Defined Benefit Pension Plan

HOW IT WORKS AND HOW IT IS CHANGING



Defined Benefit vs. Defined Contribution

Kaiser sponsors two types of pension plans:

A **DEFINED BENEFIT** pension plan promises – guarantees – to pay a specified amount to an employee who retires after a set number of years of service. Amount paid is based on set formula, and amount owed may be calculated at any time. All contributions to the plan are made by the employer. What is defined in this plan is the benefit amount.

A **DEFINED CONTRIBUTION** pension plan – like a 401K – allows employees to save money for retirement on a pre-tax basis. The employer may choose to fund the plan, either as a set contribution amount or as a matching amount of an employee's contribution. There is no guarantee of future benefits to be received by employees. What is defined in this plan is the contribution amount.

Overview

- **Pension benefit amount is based on a formula** using an average of your hourly wage rate, your length of credited service, a pension multiplier factor and your age at retirement
- **Vested after five years of service**
 - **Year of service** defined as 1,000 compensated hours in a calendar year
 - All KP compensated hours count – for example, regular, OT, vacation, sick, flexible days off, jury duty, bereavement leave, education time, etc.
- **After vesting, entitled to future benefit payment** even if leaving before normal or early retirement age
- **Normal retirement at age 65; early retirement option beginning at age 55 with minimum of 15 years of service**
- **Variety of payment options**

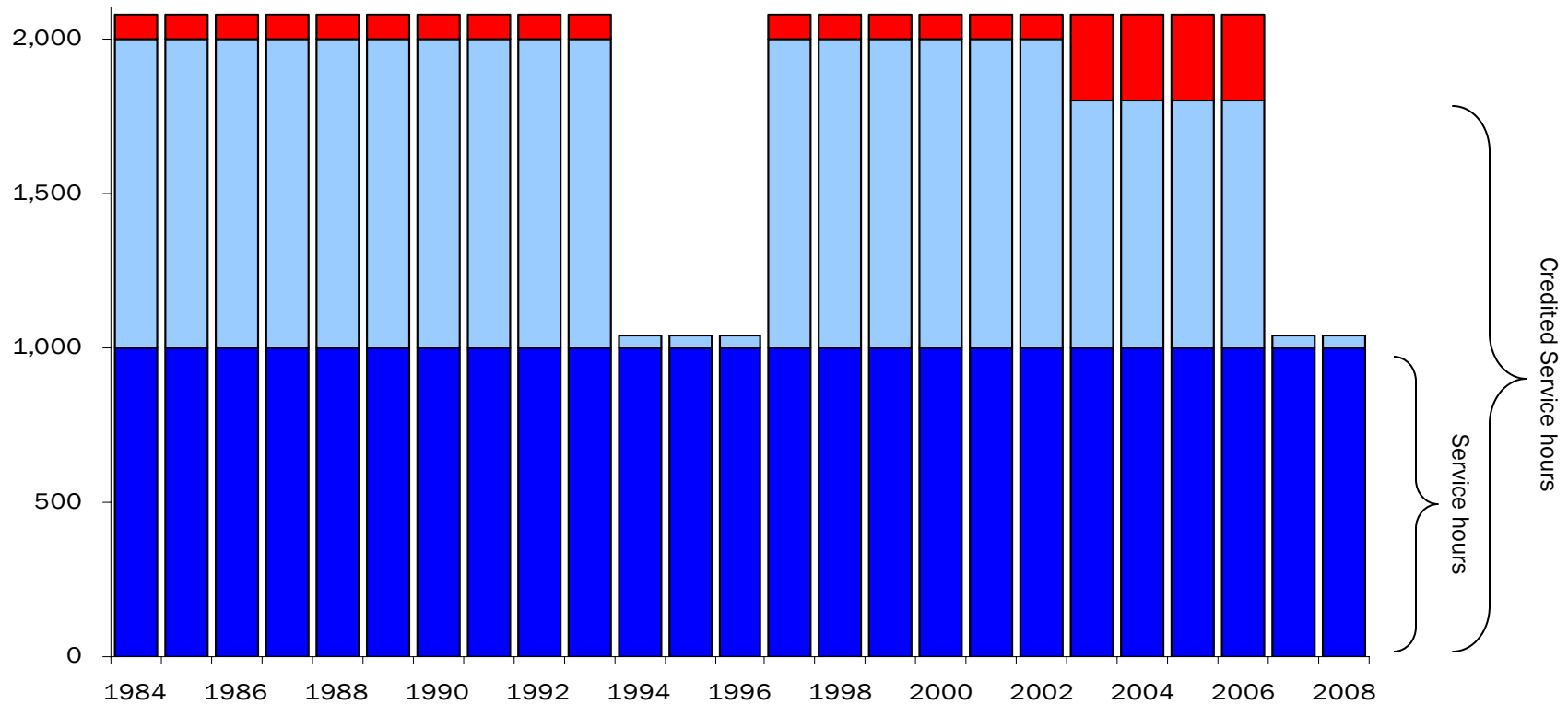
How Benefit Is Calculated

Pension benefit amount, regardless of payment option, based on a formula using

- A **pension benefit multiplier** of 1.45%
- **Years of credited service**
 - ✓ Beginning 2003 you earn year of credited service for each calendar year during which you are compensated 1,800 hours or more
 - ✓ For all years prior to 2003, you earned year of credited service for each calendar year in which you were compensated 2,000 hours or more
 - ✓ Partial years of credited service for calendar years during which less than 1,800 paid hours
 - ✓ Difference between *years of credited service* (1,800 hours) and *years of service* (1,000 hours)
- **Final Average Monthly Compensation (FAMC) – 60 mos. avg. rate x 173.33 hrs.**
 - ✓ FAMC is calculated by first taking an average of your highest hourly wage rates over a consecutive 60 month period during your last 120 months of employment. Almost always this average hourly wage rate will be over your last five years of employment.
 - ✓ Average uses your base hourly rate - no ACP premium, no differentials, etc. apply
 - ✓ Multiplying the 60 month average rate by 173.3 hours equals your FAMC. 173.3 is the average number of hours a full-time (2,080 hours per year) employee is paid per month.

Counting Years

25 years of service and 22.72 years of credited service



Final Average Monthly Compensation

Effective Date	Hourly Rate	Mos. at Rate	Average 60 mos. Rate	Hrs/Month	FAMC
10/1/2000	\$20.000	12		173.33	
10/1/2001	\$20.800	12		173.33	
10/1/2002	\$21.632	12		173.33	
10/1/2003	\$22.497	12		173.33	
10/1/2004	\$23.172	12	\$21.620	173.33	\$3,747 left at 9/30/2005
10/1/2005	\$23.867	12	\$22.394	173.33	\$3,882 left at 9/30/2006
10/1/2006	\$24.822	12	\$23.198	173.33	\$4,021 left at 9/30/2007
10/1/2007	\$25.815	12	\$24.035	173.33	\$4,166 left at 9/30/2008
10/1/2008	\$26.589	12	\$24.853	173.33	\$4,308 leave at 9/30/2009
10/1/2009	\$27.387	6		173.33	
4/1/2010	\$27.935	6	\$25.751	173.33	\$4,463 leave at 9/30/2010

How Benefit Is Calculated

Final Average Monthly Compensation

X

Years of credited service

X

Pension benefit multiplier

An employee who at age 65 has 25 years of service and 22.72 years of credited service and leaves on September 30, 2009 with a a FAMC of \$4,308 will earn a monthly life only annuity payment of:

$$\mathbf{\$4,308}_{\text{(FAMC)}} \times \mathbf{22.72}_{\text{(yrs credited service)}} \times \mathbf{1.45\%}_{\text{(multiplier)}} = \mathbf{\$1,419 \text{ per month}}$$

Types of Retirement

Normal retirement at age 65

Retire at 65 regardless of years of service (must be vested with minimum five years) can receive benefit immediately

Postponed retirement after age 65

Lump sum benefit is actuarially reduced (slight reduction)

Early retirement at age 55 with 15 years of service

Age at retirement determines reduction factor

May elect to defer payment to a later year; payment based on age at payment date

Early Reduction Factors

<u>AGE</u>	<u>ERF</u>
65	100%
64	95%
63	90%
62	85%
61	80%
60	75%
59	70%
58	65%
57	60%
56	55%
55	50%

Disability retirement regardless of age

Requires 10 years of service and a Social Security Disability award

Deferred vested pension - if employment ends with five years of service, but before eligible to retire, entitled to pension at age 65; **early deferred vested** - with 15 years of service, may begin receiving benefits at age 55. Not eligible for retiree health benefits

Survivor Benefit

- **Survivor benefit paid if vested in pension**
 - Dies while actively employed
 - Dies after termination with a vested benefit
- **For a spouse or domestic partner, 50% joint and survivor annuity**
- **Non-spouse/domestic partner survivor – qualified dependent**
 - Dependent as defined by the IRS
 - 10 years guaranteed monthly annuity
- **Payments made** to spouse, domestic partner, and/or qualified dependent at initial time deceased employee would have been eligible to receive payment

Importance of Staying As Long As Possible

If you are thinking about leaving and taking your pension before age 65, you should carefully consider the financial implications of leaving early.

After having been with KP for a number of years, your pension benefit really begins to accelerate once you reach age 55, primarily due to wage increases and getting a year older.

The example below shows that even if you reduce your hours from full-time 40 hours per week to part-time 20 hours per week, for every year you stay between the ages of 55 and 65, your pension payment increases roughly 16%.

For example:

Retirement Age	Yrs Credited Service	FAMC	Multiplier	Pension Benefit at 65	Early Reduction Factor	Benefit at Retirement Age	Difference from Age 55	Difference from Age 55
55	22.72	\$4,166	1.45%	\$1,372	50%	\$686	n.a.	n.a.
56	23.30	\$4,308	1.45%	\$1,455	55%	\$800	\$114	16.6%

And, if you had not reduced to 20 hours per week, your monthly annuity payment would be:

56	23.72	\$4,308	1.45%	\$1,482	55%	\$815	\$14	2.1%
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Payment Options

Joint and Survivor Annuity - If married at time of retirement, default option. To choose another option, spousal consent required. Guaranteed monthly payments paid to you or your survivor. Choose from 100%, 75%, 66.66% or 50% continuance. Monthly payments continue to survivor for the rest of their life. Once payments begin, cannot change beneficiary because joint annuitant calculation based on joint annuitant's life expectancy. [New 100% Joint & Survivor benefit beginning January 1, 2010.](#)

Life Only Annuity - Guaranteed monthly payments paid for duration of retiree's life, ceasing only upon death.

Lump Sum Payment (see following pages)

Guaranteed Years of Payment - Allows for guaranteed monthly payments, both for retiree's life and a specified period of time – 5, 10, 15 or 20 years. For example, if you elect 10 years, and you die after 5 years, designated beneficiary will receive the monthly payments for an additional 5 years. However, if you outlive the 10 guaranteed years, you continue to receive monthly payments for your lifetime. This option also allows retiree to change your beneficiary.

Level Income - Available at early retirement only (prior to age 62). Applicable only if Life Only Annuity or Guaranteed Years of Payment option selected. Monthly pension is adjusted at early retirement, and again when you become eligible for Social Security income, so that the combined amount remain fairly even throughout your retirement.

New Joint and Survivor Annuity Benefit

- **New 100% joint and survivor monthly annuity, with a 15 year certain period, and “pop-up” provision if retired employee’s joint annuitant dies first**
 - Is a fixed monthly annuity covering the retired employee and a second person (called the “joint annuitant”), usually the employee’s spouse or domestic partner
 - Has a guaranteed (certain) payment period of 15 years; if both the retired employee and the joint annuitant die within 15 years of payment start date, designated beneficiary receives same monthly payment for the remainder of 15 year period, then payment ends
 - Has a “pop-up” provision; single life annuity paid to the retired employee if joint annuitant dies first. “Popped-up” single life annuity payable only to retired employee
- **Effective January 1, 2010**

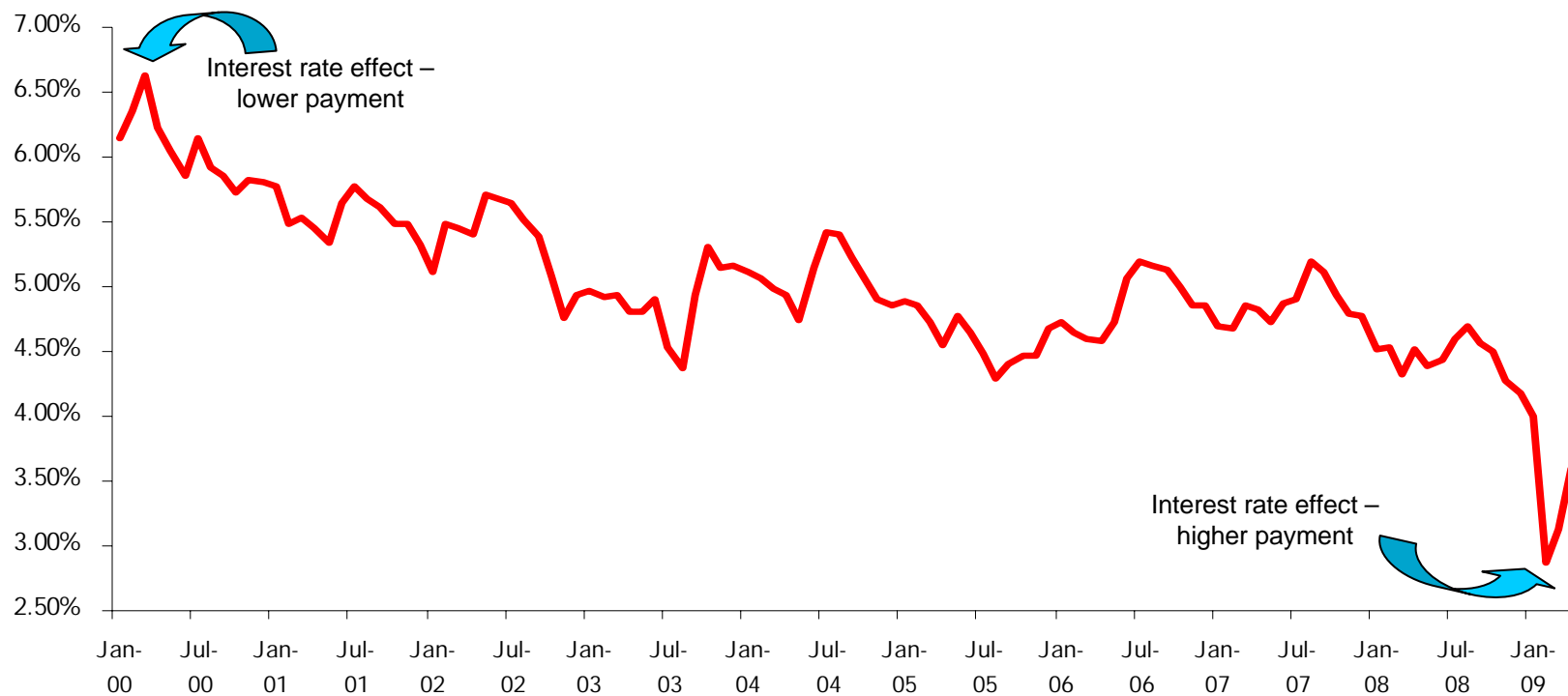
Example: Jane works at Kaiser for 20 years, retires at age 65, and based on her years of credited service and final average monthly compensation, earns a pension benefit of \$2,800 per month as a single life annuity and \$2,500 per month as a Joint and Survivor (J&S) 100% continuance, 15 year certain annuity. Jane is married to Bob, and they have an adult daughter named Nancy. When Jane retires she decides to take this new J&S annuity, and names Bob as the joint annuitant and Nancy as their beneficiary during the certain period. So, Jane and Bob begin receiving the \$2,500 per month payment. As long as both are alive, the payment continues unchanged for the remainder of their lives. If Jane dies first, Bob would continue to receive the same \$2,500 monthly annuity for the remainder of his life. And if Bob dies first, Jane’s monthly benefit would “pop-up” to the \$2,800 per month single life annuity, and she would continue to be paid the \$2,800 annuity for the rest of her life. That was simple enough. Now, let’s throw in a complication. Both Jane and Bob die after 10 years of Jane’s retirement. I know, quite a complication, dying is. In this case, Nancy (the daughter who was named the beneficiary) would receive the \$2,500 J&S for the remainder of the 15 year certain period, and then the payment would end. Regardless of who dies last, Jane or Bob, and regardless of what that person was being paid, Nancy’s benefit is limited to the \$2,500 J&S for the remainder of the 15 year certain period. In this example, Nancy is paid \$2,500 a month for five years.

Lump Sum Payment Option

- Provides for a **single lump sum payment**
- **Should roll-over** to a tax-deferred account to avoid immediate income taxation
- Generally, a lump sum payment **must be no less than the present value of the annuity to which an employee or his/her beneficiary would have been entitled**
- To calculate lump sum amount, the pension plan **uses a specified interest rate and mortality assumptions**
- **Calculation is (monthly life only annuity amount) x (anticipated months annuity would be paid) discounted to a present value using an interest rate**
 - Anticipated months annuity would be paid based on mortality table – 1983 Group Annuity Mortality
 - Interest rate used is a monthly 30-year Treasury constant maturities rate, set back 60 days. The higher the rate of interest in effect, the lower the lump sum benefit amount

Lump Sum Payment Option

History of 30-Year Treasury Constant Maturities Interest Rate Used to Calculate Lump Sum Payments



Lump Sum Payment Calculation

Rate of Interest Used to Discount to Present Value

		<u>2.0%</u>	<u>3.0%</u>	<u>4.0%</u>	<u>5.0%</u>	<u>6.0%</u>	<u>7.0%</u>
Age 65 Monthly Annuity	\$1,455	↑	↑	↑	↑	↑	↑
Predicted Age at Death	85						
Anticipated Months Annuity Paid	240						
Total Anticipated Payments Over Lifetime	\$349,200						
Lump Sum Amount Using an Interest Rate of							
		<u>\$287,616</u>	<u>\$262,352</u>	<u>\$240,107</u>	<u>\$220,469</u>	<u>\$203,090</u>	<u>\$187,670</u>

Pension Protection Act of 2006

- Several years ago Congress passed new legislation – the Pension Protection Act (PPA) of 2006
- The PPA was designed to protect pension beneficiaries and the future financial health of the Pension Benefit Guarantee Corporation (PBGC)
 - Require pension plan sponsors to fund plans faster
- To accomplish its goal, the PPA
 - Placed benefit restrictions on under-funded plans
 - Changed the basis for lump sum calculations

The PPA and Pension Funding Levels

- Pension plans are **funded from two sources**: company cash contributions and pension fund earnings
- Pension plan **funding level**
 - Present value of accrued pension benefits payable to employees compared to current value of the pension fund; fully funded (100% funding) means pension fund value equals pension fund accrued benefit liabilities

PPA RESTRICTIONS PLACED ON UNDER-FUNDED PLANS

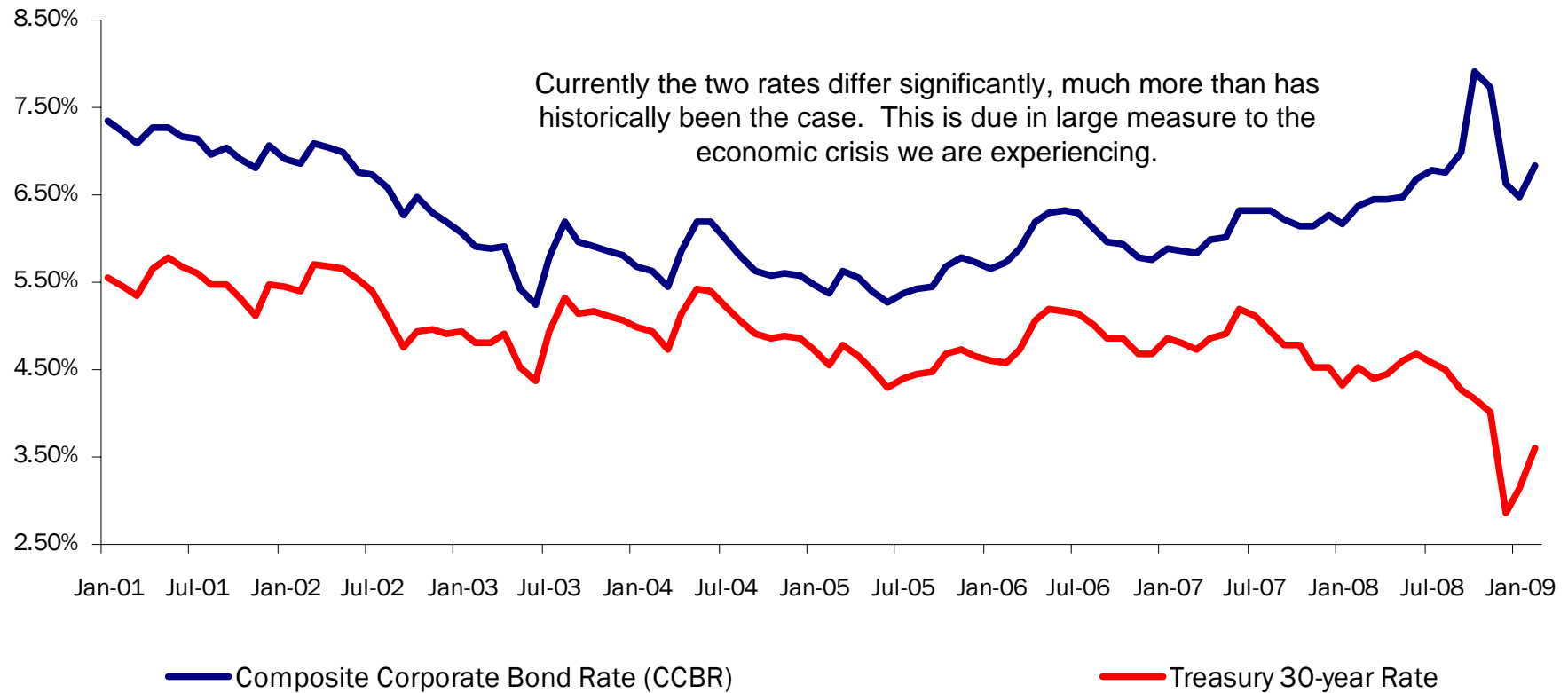
Funded at 80% or higher	Less than 80% funded	Less than 60% funded
No plan restrictions	No plan amendments to increase benefits allowed Partial restriction placed on lump sum payments - total potential lump sum payment limited to 50% with remaining 50% paid as a monthly annuity	Plan freeze on any changes No optional benefits payments other than life annuity – no lump sum payments allowed

The PPA and Lump Sum Payments

- The PPA changed basis of pension lump sum calculations. Beginning in 2008, pension plans could
 - change the interest rate used to a “three-segment yield curve” of investment grade corporate bond rates, phased in at 20% each year over five years
 - use new mortality tables – the RP 2000 Mortality tables
- KP chose not to implement the PPA in January 2008; will implement in January 2010, using 60% of the corporate bond rate and 40% of the 30 year Treasury rate
- Immediate impact of the PPA will be lower lump sum payments, as corporate bond rates have historically exceeded treasury rates. How much lower is unknown, as we cannot know what interests rates will be in January 2010.

	Corporate Bond rate	30-year Treasury rate
2008	20%	80%
2009	40%	60%
2010	60%	40%
2011	80%	20%
2012	100%	0%

Comparing Rates of Interest



How to Decide to Leave Before the Changes

- If wanting to take lump sum payment, [should you leave before 2010?](#)
 - Any decision about retiring and maximizing your pension payment should take into account
 - ✓ Age and the impact of the early reduction factors
 - ✓ Years of service
 - ✓ Years of credited service
 - ✓ Final average monthly compensation (FAMC) and future wage increases
 - ✓ Retiree medical eligibility
 - ✓ HRA eligibility
 - ✓ How much personal savings, 401K, etc., you have
 - ✓ How much longer you receive an active paycheck
- [No easy decision](#)
 - If you are age 65 or older [and had definite plans](#) to retire in 2010, then perhaps you should reconsider and leave in 2009

When You Must Leave

- If you decide
 - You want a lump sum payment
and
 - You want the lump sum payment to be determined under the 30-year Treasury rate
- You **must leave no later than November 25, 2009**
 - Lump sum calculations use the interest rate in effect in the month after you terminate service, **NOT** the rate in effect in the month you terminate
 - Leaving in November 2009, the pension plan will use the December 2009 rate to calculate your lump sum payment
 - Leaving in December 2009, the pension plan will use the January 2010 rate to calculate your lump sum payment
- To be sure you are not impacted by the change, should plan on leaving well before November 25

Resources for Additional Information

- **Kaiser Permanente Retirement Center**
 - 866-627-2826
 - www.myretirement.kp.org
 - Pension estimates, forms/paperwork
- **Kaiser Human Resource Service Center**
 - 877-457-4772
 - Retiree medical coverage (non-COBRA)
- **Kaiser Member Service Call Center**
 - 800-464-4000
 - COBRA coverage
- **Vanguard**
 - 800-523-1188
 - www.vanguard.com