



# PENSION UPDATE

## Frequently Asked Questions

April 2, 2009

### What are my retirement benefits at Kaiser Permanente?

Kaiser Permanente retirement benefits include *retirement savings plans* (also known as 401(k), 403(b), tax-sheltered annuity or defined-contribution plans) and a company-funded *pension plan* (also known as a defined-benefit plan).

Your retirement savings plan allows you to make pre-tax contributions from your paycheck into your choice of investment accounts, managed by The Vanguard Group. You may also qualify for employer contributions to this account.

Most of our pension plans are single-employer, union-negotiated plans funded entirely by Kaiser Permanente. The pension provides payments, which can be taken as a monthly payment or in a lump sum, to eligible employees on retirement. It is the type of strong, traditional pension plan that most companies no longer offer—in fact, only about one-fifth of workers in the private sector still have such plans.

In addition, KP provides retiree health benefits—a separate benefit from the savings and pension plans.

The company-paid pension plan is the subject of this Pension Update; your other retirement benefits remain unchanged.

### How does my pension plan work?

Our pensions are funded from two sources—KP cash contributions and KP investment in stocks and bonds. When you become eligible for retirement, you have multiple payment options. You can collect a fixed monthly payment (called an annuity) for life. Or you can take a single, lump-sum payment.

In either case, the amount of the payment you receive is determined by a formula that includes your salary, years of service and age at retirement.

### What's changing and why?

Due to the current economic climate, the value of KP's pension plan investments has declined, as have most corporate and personal investments. As a result, our pension funds—for the first time—are at risk of falling below the 80% funding level that, by law, must be maintained in order to offer full lump-sum payments to retirees.

To safeguard the long-term security and financial health of our pension plans, and help preserve the full, lump-sum payment option for future retirees, Kaiser Permanente and the Union Coalition have agreed to changes in the formula used to calculate lump-sum payments. The changes, consistent with new life expectancy tables and interest rates included in the Pension Protection Act of 2006, will be phased in starting January 1, 2010.

This change may reduce the lump-sum payment for employees who retire effective December 1, 2009 and beyond. This change will not reduce monthly annuity payments. KP is also enhancing another pension option that offers guaranteed, monthly retirement payments, for you and your spouse or partner, for life.

### How much less will I be getting if I take a lump-sum payment?

The amount of your lump-sum payment will depend on future interest rates, which are used to determine the amount of the lump-sum payment. It's impossible to predict how these rates will change in the future. However, we've estimated that lump sum payments *could* range anywhere from 5% to as much as 15% lower in 2010. Those who retire and take payment by December 1, 2009 will have no reduction in their lump-sum payments.

### This sounds like a take-away. What's the benefit of this change to me?

As a result of these changes, KP employees will continue to enjoy the kind of strong, traditional pension plans that most employers no longer provide. *The changes protect our pension plans and help ensure that we will have the lump-sum payment option in the future.*

In addition, we have gained improvements to a pension payment option called the 100% joint and survivor annuity, which is an alternative to the lump-sum payment. The annuity pays a guaranteed monthly payment to you and a second person (called “the joint annuitant”), usually your spouse or domestic partner, for life. If your joint annuitant outlives you, he or she continues to get a monthly payment for life.

*More information about these improvements is available in the Union Coalition Pension Update of March 16, 2009. Additional details will be forthcoming from Kaiser Permanente.*

### How are our pension funds protected?

Federal law provides strict oversight of pension plans. KP is following the provisions of one such law, the Pension Protection Act of 2006, in making the changes described above.

But you should also know that KP’s pension fund trustees have been excellent stewards of our pension funds. They’ve worked hard to minimize the impact of the market downturn, maintain sound funding levels and ensure the future of our pensions. The Union Coalition has retained an independent consultant to advise us on the best way to protect our pension funds in the face of economic and regulatory changes. Our consultants and our union leadership believe the new changes to our pension plan, while difficult, are in our best long-term interests.

### Can I still retire early? Will it be to my benefit to do so before the plan changes?

Your options for early retirement remain unchanged. If you are close to retirement and want to take a lump sum payment, you may benefit from retiring in November 2009 or earlier, and requesting a pension distribution on December 1, 2009 or earlier. The new rates take effect with pension payments after December 1, 2009. However, there’s no need for immediate action as you will have until October 2009 to make a decision.

What’s best for you will depend on many factors, including your age, years of service, personal savings and future needs. If you are eligible to retire this year, you may call a retirement specialist at the Kaiser Permanente Retirement Center for more information: **866-627-2826**.

### How will the benefit changes affect the contributions already made on my behalf?

As noted, our pension plans are funded entirely by Kaiser Permanente—and KP bears the risk for maintaining adequate pension funding during market downturns. The changes to the plan will help ensure the funding levels necessary to preserve all our pension options.

Any contributions you have made to your *retirement savings plan* are separate from the pension plan, and are not affected by any changes to the pension plan.

### What’s in it for single people? If I do not have a spouse or partner, can I designate my children or others as beneficiaries?

What’s in it for everybody is the preservation of the full, lump-sum payment option, which is a popular option for single employees and others.

If you are single, you may designate a beneficiary of your choice by opting for one of the following methods of payment: the joint and survivor annuity or the *guaranteed years of payment*. The joint and survivor annuity lets you name a beneficiary (known as a joint annuitant) who will get a percentage of your benefit for life in the event of your death. You can choose the percentage of your payment your joint annuitant receives, either 100%, 75%, 66 ⅔%, or 50%.

The guaranteed years of payment, also known as a “term certain” annuity will pay you for a period of five, 10, 15 or 20 years from your date of retirement, according to your wishes, and will pay a beneficiary the remainder of the payments if you die before the term is up. For example, if you select a niece as your beneficiary, with a 15-year term, but die after five years, then your niece would receive your monthly payment for the next 10 years. The amount of the monthly payment would be adjusted based on the length of the term you select, your age, your niece’s age and several other factors.

### Were the changes to the lump-sum option discussed with the unions? Were union members at the table to negotiate the changes?

Kaiser Permanente had no contractual obligation to negotiate these changes with the unions; as the pension plan sponsor, KP had the right to make these decisions on its own. In the spirit of partnership, however, KP asked our unions to be part of the decision-making process. We have been involved in these discussions since December, and helped improve the plan as a result. Union leaders at all levels—Union Coalition national leadership, local union leadership and frontline workers—engaged in talks with Kaiser Permanente and consulted with fellow union members about the changes made to safeguard our pension benefits.

### In the future, if economic conditions improve, will we try to get the lump-sum calculation back to the old rate?

Pensions will be addressed as part of national bargaining in 2010. Enhancements to the plan may be possible at that time.

### Where can I get more information?

Kaiser Permanente will be mailing detailed information explaining the changes to the plan to employees’ homes. The information will be mailed to all covered employees in late April. Employees who will be eligible for retirement before December, 2009, will get their information from KP in early April.