



PENSION UPDATE

March 16, 2009 – These are tough economic times for all of us. And the value of Kaiser Permanente’s pension plans, like most personal and corporate assets, has declined in recent months. We’ve worked hard to minimize this decline, maintain sound funding levels and ensure the future of our pensions.

To that end, Kaiser Permanente and the Coalition of Kaiser Permanente Unions have reached an agreement to protect KP pension plans, in the interest of KP employees.

Under the agreement, Kaiser Permanente will change the way lump-sum pension payments are calculated, consistent with federal law. This change may reduce the lump-sum payment for employees who retire effective January 1, 2010. However, KP is enhancing another pension plan option that offers guaranteed, monthly retirement payments, for you and your spouse or partner, for life.

We are adopting these changes in order to safeguard the long-term security and financial health of our pension plans, preserve the full, lump-sum payment option for future retirees, and align our plans with new government-recommended rates. As a result, Kaiser Permanente employees will continue to enjoy the kind of strong, traditional pension plans that most employers no longer provide.

Why is the change necessary?

Our pensions are funded from two sources—KP cash contributions and investment in stocks and bonds. Due to the market losses that have hit the whole country, the value of our pension fund investments have similarly declined.

As a result, our pension funds—for the first time—are at risk of falling below the 80% funding level that, under federal law, we must maintain in order to offer full lump-sum payments.

How the plans have gotten better

To improve our pension plans, we tried to address two concerns consistently heard from married employees:

- What if I and my spouse or partner dies young, and then no one gets my hard-earned pension payment?
- When my spouse dies and his or her pension or Social Security payment is cut to me, how do I make up that loss in income?

We’ve addressed those concerns by improving a pension 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.

Under the new agreement, the 100% joint and survivor annuity now provides:

- A *15-year guaranteed payment period*: If you and your joint annuitant die within 15 years of your retirement date, another beneficiary—a child, other relative, or whomever you've selected—will continue to receive the same monthly payment, up to the end of the 15-year period.
- A *"pop-up" payment provision*: If your joint annuitant dies before you do, your monthly payment will increase to the same amount you would have received under a single, "your life-only" option. (Previously, your payment would have remained at the same level you were paid jointly.) You will collect this higher amount for the rest of your life. If you die before the 15-year period is over, your beneficiary will collect the original, joint monthly amount up to the end of the 15-year period.

How it works

Combining these two features is unusual in any pension plan, and gives our retirees added security. Here's an example of how the two features can work together to provide secure, predictable retirement income (the dollar amounts are for example only):

- Jane worked at Kaiser for 20 years, retires at age 65, and decides to take the 100% joint and survivor annuity. She names her husband, Bob, as the joint annuitant and her daughter, Nancy, as their beneficiary. Based on Jane's years of service and final compensation, Jane and Bob receive \$1,200 per month. As long as both are alive, the payment continues unchanged. If Jane dies first, Bob would continue to receive the same \$1,200 monthly annuity for the rest of his life.
- If Bob dies first, Jane's monthly benefit would "pop-up" to \$1,400 per month—what she would have earned under a single "your life only" annuity—and she would continue to be paid \$1,400 a month for the rest of her life.
- If both Bob and Jane die before the end of the 15-year guaranteed period, then Nancy, their beneficiary, would receive the \$1,200 joint and survivor monthly annuity for the remainder of the 15-year period. *Under the old pension plan, Nancy would have received nothing in such circumstances.*

What it means to you

At a time of unprecedented losses to investments around the world, we have acted to protect our pensions and we have achieved a new benefit for retirees which we should all be proud of.

How much lower will the lump-sum payment be? That will depend on future interest rates, which we cannot predict. We've estimated that lump sum payments could range anywhere from 5% to as much as 15% lower in 2010. But remember, the 100% joint and survivor annuity will be enhanced. And the "your life only" annuity option will not change at all.

If you prefer the lump-sum option and are close to retirement, you may benefit from retiring before January 1, 2010, when the new rates begin to phase in. 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.

By March 31, Kaiser Permanente will be mailing a detailed explanation of the pension plan changes to all employees eligible to retire in 2009. We will keep you updated as well.

Before you make a retirement decision, review all your payment options carefully. If you are eligible to retire this year and are interested in taking the lump-sum payment, you may call a retirement specialist at the Kaiser Permanente Retirement Center for more information: **1-866-627-2826**.