Oregon Nurses Make A Difference

Providence Health System
Open Forum on Pension Plan Changes

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How do you do it? Why do you care so much?
Thanks, in part, to your dedication and commitment to those in your care...

PROVIDENCE HEALTH & SERVICES

- “In our view the [bond] rating reflects the status as one of the nation’s largest not-for-profit health care providers with more than **seven billion** in annual revenues...”

- “Record of strong operating performance averaging over a **4% operating margin** annually for many years combined with strong revenue growth.”

- “A sound management team that is forward looking, **willing to make difficult decisions**, and focused on quality issues as well.”

Standard & Poor’s May 5th, 2009
But wait...

If Providence is doing so well, why are they changing our retirement plan?
We are all asking this same question,
and it is time for some answers....
Today’s Discussion

- A Quick Review of Retirement Plans Basics
- Upcoming Changes to Your Retirement Plan
- Why the Change?
- An Overview of Business Credit
  - The Importance of Good Credit to Business
  - Some of the Terminology Used
  - “How it Works” - How Providence uses credit to finance growth
- What Happened?
- How the Changes Help Providence
- How the Changes Will Affect You
- Questions?
The 2 Main Types of Retirement Plans are:

- Defined Benefit Plans (Core)
- Defined Contribution Plans (Value)
Your monthly Retirement Benefit is based on a formula:
- A set employer contribution typically based on gross wages
- Guaranteed interest earnings tied to CPI

The Company guarantees your monthly benefit.

It’s an important part of your current benefit package here at Providence.

Core: “The central, innermost, or most essential part of anything.”
The Employer’s Contribution is defined
- Usually as a percentage of pay

No promises on what happens to the money in the future!

Often you need to make a contribution yourself to fully benefit from your employer’s plan.

You pick the investments!
Old Versus New Plan Comparison

CURRENT PROGRAM

- 457(b)
  - If employees choose to save the maximum in the Value Plan, they can contribute pre-tax earnings to this plan.

Value Plan

- Employees are able to save and Providence will match based on "years of service."

Core Plan

- Last contribution from Providence made in Spring of 2010

NEW PROGRAM

- 457(b)
  - No changes other than investment options will be revised.

Value Plan

- No changes other than investment options will be revised.

New Plan

- First contribution from Providence made in Spring of 2011

CORE PLAN

- Frozen as of 12/31/2009
## PROVIDENCE CORE PLAN VS NEW PLAN

### Change of Contribution

<table>
<thead>
<tr>
<th>Current Core Plan</th>
<th>New Plan</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% of Gross pay</td>
<td>0-9 Years: 3%</td>
<td>-2%</td>
</tr>
<tr>
<td></td>
<td>10-14 Years: 5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>15+ Years: 6%</td>
<td>+1%</td>
</tr>
</tbody>
</table>

(+ Rule of 50)
Must have 10 years + service as of 1998; and age + years of service = 50

<table>
<thead>
<tr>
<th>Current Core Plan</th>
<th>New Plan</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.5% to 12.5%</td>
<td>0%</td>
<td>-.5% to 6.5%</td>
</tr>
</tbody>
</table>

(+ Rule of 85)
For early retirement; must be age 55-65; and age + years of service = 85

<table>
<thead>
<tr>
<th>Current Core Plan</th>
<th>New Plan</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 10 year of Interest Credit at CPI + 3%</td>
<td>Up to 10 year of Interest Credit at CPI + 1%</td>
<td>-2% (up to 10 years)</td>
</tr>
</tbody>
</table>

### Change of Interest

<table>
<thead>
<tr>
<th>Current Core Plan</th>
<th>Frozen Core Plan</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI +3%</td>
<td>CPI +1% (max 4%)</td>
<td>-2% (depends on CPI)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Core Plan</th>
<th>New Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI +3%</td>
<td>No Guarantee of Interest</td>
</tr>
</tbody>
</table>
Pay credits into the Core Plan will cease

Lower interest rate credit

Old Method: CPI + 3% (Now 5.5%)
New Method: CPI + 1% (max of 4%)

Rule of 85 - if eligible by 12-31-2009:
Cash Balance: you will continue to receive interest as before
If not – lower interest rate credited

Pay credits will be deposited into the new plan under a new formula
Effective January 1, 2010 Pay Credits will be based upon years of service:

- 0-9 Years: 3% of pay
- 10-14 Years: 5% of pay
- 15+ Years: 6% of pay

Employee now bears all investment risk!
- picks his/her investments

Rule of 50 – Gone
Value Plan:

- No Change to Employer Match
- New Investment Selections
- No other changes at this time
To understand why we must first explore:
- The importance of good credit to business
- Some of the terminology used in business
- “How it Works” - How Providence uses credit to finance growth
The Importance of Credit

**Consumers**
- Ability to buy a home, cars, pay for education, etc.
- Types of credit: credit cards, mortgages, personal loans, etc.

**Businesses**
- Ability to buy buildings and equipment, pay for acquisitions in order to grow.
- Types of credit: Mostly **Bonds**
Cost to borrow goes up – New Mortgages may have higher payments and larger downs

Can’t afford to save as much for your Retirement

Cost to borrow goes up, profitability goes down

Impacts growth

Which may impact job creation
Some of the terminology used in business
A Bond is a certificate promising debt repayment issued by a government or company promising to pay back borrowed money at a fixed rate of interest on a specified date.

The Bond Credit Rating assesses the credit worthiness of a corporation's debt issues. It is analogous to credit ratings for individuals and countries.

These ratings are assigned by Credit Rating Agencies such as Moody's, Standard & Poor's, and Fitch. They have letter designations such as AAA, B, CC.
Moody’s Credit Rating – Investment Grade

- Aaa: Businesses rated Aaa offer Exceptional credit quality.
- Aa1, Aa2, Aa3: Businesses rated Aa offer Excellent credit quality.
- A1, A2, A3: Businesses rated A offer Good credit quality.
- Baa1, Baa, Baa3: Businesses rated Baa offer Adequate credit quality.
Moody’s Credit Rating – Speculative Grade

- **Ba1, Ba2, Ba3**: Businesses rated Ba offer **Questionable** credit quality.
- **B1, B2, B3**: Businesses rated B offer generally **Poor** credit quality.
- **Caa1, Caa2, Caa3**: Businesses rated Caa offer **Extremely Poor Credit** quality.
- And it just gets worse from there…
“But if their Bond Rating goes down, won’t they go bankrupt and we’ll all lose our jobs?”

NO…. Providence uses the revenues (like billing patients) from existing operations to pay your salaries.

They use bonds to finance their acquisitions.

If their Bond Rating goes down then their cost to borrow goes up.
The question we should be asking is:

Are we willing to sacrifice the quality of our retirement so Providence can keep on building?
Why The Change?
An Overview of Business Credit

“How it Works”

How Providence uses credit to finance growth
“We could help more people with their long term care needs…and create good jobs… if only we had a new facility!”

“But how are we going to pay for it?”

“I know …. let’s finance it with some more bonds!”
Investors

“We will buy your bonds!”

“If only you have good credit !!!”
An Overview of Business Credit

Company Authorizes Bonds

Bond

Investors Buy The Bonds

Construction Jobs

Providence Health & Services
An Overview of Business Credit

How It Works...

Company → Revenues → Brand New Cancer Center

PROVIDENCE Health & Services

Bonds Paid Off → Happy Investors
“Continued turmoil in the credit markets could end up delaying or downsizing local hospital construction programs.”

“Providence Regional Medical Center Everett is watching the market carefully. The hospital had been expecting to fund its $600 million expansion program, just under way, in part through a $171 million bond issue.”
CHALLENGES

• Providence has a “large and growing debt program; debt will have increased from $1.5 billion at fiscal year end (FYE) 2007 to nearly $2.2 billion...”

• “Large ongoing capital program; additional debt in FY 2010 and FY 2011 could further dilute debt measures and stress PHS's credit profile ..”

from Moody’s 10/21/2008 & 5/6/2009
The following is from http://www.providence.org/

Consolidated Statements of Changes in Net Assets
Years ended December 31, 2008 and 2007
(In thousands of dollars)
Audit of Core Plan Investments

<table>
<thead>
<tr>
<th>Change in fair value of plan assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>1,357,644</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>(464,207)</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>139,045</td>
</tr>
<tr>
<td>Benefits paid and other</td>
<td>(124,630)</td>
</tr>
<tr>
<td>Measurement date change</td>
<td>24,449</td>
</tr>
<tr>
<td><strong>Fair value of plan assets at end of year</strong></td>
<td><strong>932,301</strong></td>
</tr>
<tr>
<td>Funded status</td>
<td>(857,221)</td>
</tr>
<tr>
<td>Fourth quarter contributions</td>
<td></td>
</tr>
<tr>
<td>Adjusted funded status</td>
<td>(857,221)</td>
</tr>
</tbody>
</table>

09/30/07 to 12/31/2008

Investment losses over $464 Million

Increase of 618 million in unfunded liability from 9/30/2007

From Providence Financial Audit
From Providence’s 2008 Annual Report:

The Health System’s pension plans’ weighted average asset allocations at December 31, 2008 and 2007 by asset category are as follows:

<table>
<thead>
<tr>
<th>Asset category</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>Equity securities</td>
<td>42</td>
<td>70</td>
</tr>
<tr>
<td>Other, net of pending trades</td>
<td>(2)</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The asset category other includes plan investments in two hedge funds with an estimated fair value of $30,877,000 and $34,977,000 at December 31, 2008 and 2007, respectively.

Hedge Fund: An investment company that uses high-risk techniques in the hope of making large profits.
“In 2008, PH&S had to recognize an $845 million liability in its 2008 audit, which is up from a $225 million liability in 2007.”

Standard & Poor’s 05/05/2009
Significant investment losses to the Plan’s assets and Providence’s growing liability to pay for it, caused concern with the credit rating agencies.
“In response to the weakened balance sheet, management has moved quickly to freeze its pension plan, curtail its pension contributions by changing and capping its pension contribution formula…”

“Management indicates these actions immediately reduced the pension liability by $300 million…”
“As a church plan, PH&S has more flexibility as to how it meets this liability than plans governed by ERISA rules.”

“Management has publicly announced a pension-plan freeze and reduced the amount of annual funding credit it needs to give to individual accounts by changing and capping the funding formula.”

“This should result in a $30 million cash flow savings to PH&S and more significantly reduce the plan liability to roughly $500 million from $800 million currently.”

Standard & Poor’s 05/05/2009
“Standard & Poor's affirmed its 'AA' long-term rating on PH&S's outstanding debt…”

“In our view, the rating reflects PH&S's status as one of the nation's largest not-for-profit health care providers with more than $7 billion in annual revenues…”
By freezing the CORE Plan and shifting the investment risk from the company to you, the company reduces its current and future pension liabilities as it safeguards its Bond Ratings.
The benefits of freezing the CORE Plan

- **$300,000,000.00** immediate reduction in unfunded liability.

- **$30,000,000 per year** in cash flow savings.

- Company keeps the surplus earnings on the plan’s assets.
Unfunded Liability Reduction*

- Unfunded Liability Before
  - $800,000,000
- Unfunded Liability After
  - $500,000,000
- Savings to Providence
  - $300,000,000

*These figures are provided by the Standard & Poor’s credit research report dated May 5, 2009.
“The annual cash flow savings to the plan is $30,000,000”
Assuming just the minimum 2.5% savings Providence will get, that adds up to: $298,635,564 in just 9 years!!

*Annual Cash Flow savings provided by the Standard & Poor’s credit research report dated May 5, 2009.*
In the online Comparison Tool, Providence assumes you can earn a 6.5% return on your money.

The most they will now pay you on the “frozen” CORE Plan is 4% and that’s no longer guaranteed (except some Rule 85 qualified employees).

So let’s just assume they can make 6.5% on the “frozen” CORE Plan, too.
Starting with $1,000,000,000.00 (1 billion)

They make 6.5% and pay you 4%.

The Cumulative Profit:

- Year 1  $  25,000,000.00
- Year 5  $131,408,213.00
- **Year 9**  $248,862,969.00 !!!!
- Year 15 $448,298,167.00
- Year 20 $638,616,442.00
How the Changes **Really** Help Providence!

**When you add it all up...**

Watch an **$800,000,000 Liability Disappear!**

<table>
<thead>
<tr>
<th>Year</th>
<th>Immediate Liability Savings</th>
<th>Annual Cash Flow Savings (Aggregated)</th>
<th>Excess return on Investments (Aggregated)</th>
<th>Value of Unfunded Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$300,000,000</td>
<td>$30,000,000</td>
<td>$25,000,000</td>
<td>$445,000,000</td>
</tr>
<tr>
<td>Year 5</td>
<td>$300,000,000</td>
<td>$157,689,855</td>
<td>$131,408,212</td>
<td>$210,901,932</td>
</tr>
<tr>
<td>Year 9</td>
<td>$300,000,000</td>
<td>$298,635,564</td>
<td>$248,862,969</td>
<td>-$47,498,534</td>
</tr>
</tbody>
</table>

Unfunded liability = 0 during year 9
Q  “The comparison tool says the new plan is similar in value for me… so what's wrong with the change???”

A  In order to convince you that the new plan will provide a retirement benefit within 90% of the old plan, Providence assumes you will average at least 6.5% per year on your investments.
Q: “If it’s so easy to average 6.5%, why are you taking away the guarantee of inflation + 3% (Currently only 5.5%)?”

Q: “If it’s so easy to average 6.5%, why did Providence lose over 30% since September 2007?”
Over the last 20 years, the average equity investor averaged a return of only 1.67%\*.

\*Dalbar Study March 2009
How The Changes Will Affect You

*Dalbar Study March 2009*
Employee 1

Assumptions

- Age (2010): 36
- Estimated Salary: $90,994
- Current Years of Service: 11
- Rule of 85 Eligible: 2028
- Current Pay Credit: 5%
- Future Pay Credit: 5% then 6%
- Retire at Age: 65

- Old Core Interest: 6.5%
- New Plan Interest: 6.5%
- Frozen Core Plan Interest: 4.0% (max)
- Average from Dalbar Study: 1.670%
- Wage Increase: 3.000%
- Employee Gets Match (Must Defer 6%)
How This Affects You...

### Employee 1

At Age 65

<table>
<thead>
<tr>
<th></th>
<th>Value of Account</th>
<th>Monthly Benefit</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Plan With No Changes at 6.5%</td>
<td>$1,067,022</td>
<td>$7,971</td>
<td>$0</td>
</tr>
<tr>
<td>New Plan with Frozen Core Plan</td>
<td>$1,017,278</td>
<td>$7,599</td>
<td>-$372</td>
</tr>
<tr>
<td>New Plan and Frozen Core Plan return of 1.67%</td>
<td>$583,787</td>
<td>$4,361</td>
<td>-$3,610</td>
</tr>
</tbody>
</table>

Account Balance age 65: $49,744 - $483,235 Less

**CHANGE IN BENEFIT:** 54.71% - 95.34%
How This Affects You...

Employee 2

Assumptions

- Age (2010): 45
- Estimated Salary: $79,781
- Current Years of Service: 18
- Rule of 85 Eligible: 2021
- Current Pay Credit: 5%
- Future Pay Credit: 6%
- Retire at Age: 65

- Old Core Interest: 6.5%
- New Plan Interest: 6.5%
- Frozen Core Plan Interest: 4.0% (max)
- Average from Dalbar Study: 1.670%
- Wage Increase: 3.000%
- Employee Gets Match (Must Defer)
- Providence Payout
### Employee 2

**At Age 65**

<table>
<thead>
<tr>
<th>Value of Account</th>
<th>Monthly Benefit</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Plan With No Changes at 6.5%</td>
<td>$497,890</td>
<td>$3,719</td>
</tr>
<tr>
<td>New Plan with Frozen Core Plan</td>
<td>$467,198</td>
<td>$3,490</td>
</tr>
<tr>
<td>New Plan and Frozen Core Plan return of 1.67%</td>
<td>$338,035</td>
<td>$2,525</td>
</tr>
</tbody>
</table>

**Account Balance age 65:** $30,692 - $159,855 Less

**CHANGE IN BENEFIT:** 67.89% - 93.84%
Employee 3

Assumptions

- Age (2010): 58
- Estimated Salary: $63,085
- Current Years of Service: 3
- Rule of 85 Eligible: N/A
- Current Pay Credit: 5%
- Future Pay Credit: 3%
- Retire at Age: 65

- Old Core Interest: 6.5%
- New Plan Interest: 6.5%
- Frozen Core Plan Interest: 4.0% (max)
- Average from Dalbar Study: 1.670%
- Wage Increase: 3.000%
- Employee Gets Match (Must Defer)
### Employee 3

**At Age 65**

<table>
<thead>
<tr>
<th>Value of Account</th>
<th>Monthly Benefit</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Plan With No Changes at 6.5%</td>
<td>$50,112</td>
<td>$374</td>
</tr>
<tr>
<td>New Plan with Frozen Core Plan</td>
<td>$36,933</td>
<td>$276</td>
</tr>
<tr>
<td>New Plan and Frozen Core Plan return of 1.67%</td>
<td>$33,312</td>
<td>$249</td>
</tr>
</tbody>
</table>

Account Balance age 65: \$13,179 - \$16,800 Less

**CHANGE IN BENEFIT:** 66.47% - 73.70%
How This Affects You...

Employee 4

Assumptions

- Age (2010): 59
- Estimated Salary: $80,601
- Current Years of Service: 38
- Rule of 85 Eligible: Now
- Current Pay Credit: 11%
- Future Pay Credit: 6%
- Retire at Age: 65
- Old Core Interest: 6.0%
- New Plan Interest: 6.5%
- Frozen Core Plan Interest: 6.0% (Still gets CPI+3%)
- Average from Dalbar Study: 1.670%
- Wage Increase: 3.000%
- Employee Gets Match (Must Defer 6%)
### Employee 4

**At Age 65**

<table>
<thead>
<tr>
<th></th>
<th>Value of Account</th>
<th>Monthly Benefit</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Plan With No Changes at 6.5%</td>
<td>$468,680</td>
<td>$3,501</td>
<td>$0</td>
</tr>
<tr>
<td>New Plan with Frozen Core Plan</td>
<td>$421,798</td>
<td>$3,151</td>
<td>-$350</td>
</tr>
<tr>
<td>New Plan and Frozen Core Plan return of 1.67%</td>
<td>Pending more information from Providence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Account Balance age 65:** $46,882 - To Be Determined Less

**CHANGE IN BENEFIT:** ?% - 90.00%
Employee 5

Assumptions

- Age (2010): 54
- Estimated Salary: $100,158
- Current Years of Service: 32
- Rule of 85 Eligible: 2010
- Current Pay Credit: 7.5%
- Future Pay Credit: 6%
- Retire at Age: 65

- Old Core Interest: 6.0%
- New Plan Interest: 6.5%
- Frozen Core Plan Interest: 6.0% (Still gets CPI+3%)
- Average from Dalbar Study: 1.670%
- Wage Increase: 3.000%
- Employee Gets Match (Must Defer 6%)
### Employee 5

**At Age 65**

<table>
<thead>
<tr>
<th></th>
<th>Value of Account</th>
<th>Monthly Benefit</th>
<th>Income Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Plan With No Changes at 6.5%</td>
<td>$719,035</td>
<td>$5,371</td>
<td>$0</td>
</tr>
<tr>
<td>New Plan with Frozen Core Plan</td>
<td>$647,112</td>
<td>$4,834</td>
<td>-$537</td>
</tr>
<tr>
<td>New Plan and Frozen Core Plan return of 1.67%</td>
<td>Pending more information from Providence</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Account Balance age 65:** $71,923 - To Be Determined

**CHANGE IN BENEFIT:** ?% - 90.00%
The stable outlook reflects PH&S's record of consistent operating performance, a strong business position, and good operating cash flow. The stable outlook also reflects our belief that any strategic growth will be consistent with management's intent to maintain a financial profile consistent with the 'AA' category.

Standard & Poor's 05/05/2009
Questions??
What can WE do?

Our ability to prevent Providence from making these changes, or to get Providence to give us something meaningful in exchange, depends on one thing:

OUR STRENGTH AS A UNION
Stronger Together

Not only do we need to present a united front across all of our Providence bargaining units, we must also have a united front _within each bargaining unit_!

If half (or more!) of our colleagues choose not to be ONA members, that tells management that those nurses don’t care about the issues ONA is working on...issues like retirement!
What can you do?

- If you are not a member, fill out an ONA membership application today!
- If you are a member, take a moment to look over the list for your unit and pick one or two nurses who are not ONA members that you can speak to in the coming weeks and encourage them to join ONA.
- A “talking points” handout is available to help you speak to your colleagues!