Retirement Plan

Lump Sum Payment Calculation Explanation

The NKCH Retirement Plan is designed to provide participants with a monthly benefit at retirement, payable for their lifetime. The benefit is determined based upon a "formula" that takes into account both the number of years a participant has worked at NKCH and the level of pay a participant has received from NKCH.

Each year, a participant earns a credit towards their ultimate benefit and after 5 years of service, a participant is "vested" in that benefit. This means that a benefit is payable when the employee is eligible to start the benefit -- it's called an accrued vested benefit.

At retirement, effective the first day of the month after the employee’s separation date, an employee is given the option to take their benefit in one of a number of forms, a:

- monthly benefit for their life;
- benefit payable to the employee (retiree) and continuing to their spouse in the event of the retiree’s death;
- benefit with an amount guaranteed over a specific period of time; or a
- lump sum.

Each of these "optional forms" is determined based upon what is called "actuarial equivalence". That means, each benefit is worth approximately the same - even though each form varies in amount and duration.

When a lump sum payment is selected, the calculation required to determine the "value" of the benefit factors in a retiree's life expectancy as well as prevailing interest rates. When interest rates are low, the lump sum is bigger. That's because, with a lower return, it takes a "bigger pot" of money to generate the same amount of income one would get with a lifetime of monthly payments. But, when interest rates are high, the retiree’s lump sum is smaller. Each year, these rates change based upon current market conditions.

Lump-sum calculations are determined using blended rates based on corporate bonds. Three levels of interest rates (segmented rates) are used to determine the lump sum -- in 2018 these rates were 1.93%, 3.57% and 4.36%. For 2019 these rates have changed to 3.10%, 4.15% and 4.46%.

So, while an employee’s accrued vested benefit remains the same or grows with each passing year, the lump sum can vary in value from one year to the next.