HCSC Employees Pension Plan – Cash Balance Participants

Prudential's HCSC Pension Calculator will use this information to calculate your estimated pension benefit assuming your service continues uninterrupted with HCSC until your termination date. It is important to note that **this estimated termination date should include your unused PTO days** to give a more accurate estimate.

Estimated Benefit Commencement Date or Age: There are certain rules that govern when you are eligible to receive your termination benefit from the pension plan, depending on your termination date.

- If you **meet the age and service requirements,** which are age 55 and 10 years of vesting service, for early retirement at your termination date, you may commence your benefit at any time on or after the first day of the third month following your termination date. For instance, if you terminate on April 15 and are eligible for early retirement you can commence your benefit at any time on or after July 1.
- If you **meet the age and service requirements** for normal or late retirement at your termination date, you may commence your benefit on the first of the month coincident with or next following your plan date of termination.
- If you meet the service requirements for early retirement **but do not meet the age requirements** at your termination date, you may commence your benefit on the first day of the third month following your termination date or on the first day of the month on or after you reach age 55. For instance, if you terminate when you are 32 years old and you have enough service to qualify for early retirement you can commence your benefit at any time on or after your 55th birthday.
- If you **meet neither the age or service requirements** for early retirement at your termination date you may commence your benefit on the first day of the third month following your termination date or on the first day of the month on or after you are 65 years old. For instance, if you terminate on August 20 and are not eligible for early retirement then you can commence your benefit on November 1 or the first day of the month on or after you reach age 65.
- Effective January 1, 2016 the HCSC Plan was amended to offer participants who did not previously meet the rules for early distribution to request a limited form of distribution from the benefit plan. Subsequent to this Plan change, current benefits can now be requested annually between July 1 and September 30.

Estimated Rate of Pay: Your anticipated annual base rate of pay, including any overtime you anticipate earning during the year, will serve as the **basis for your projected future earnings**. The initial value of this field is your most recent rate of pay on file and is a good starting place for estimating your future earnings. The rate of pay you enter should be an annual amount. The system will prorate this value for any partial years. The estimated future annual pay increase field allows you to model changes in your future pay. If you are considering including your overtime pay as part of your base pay for this estimate, the projected benefit will be calculated assuming you will work that amount of overtime every year in the future which may cause the estimated benefit to be overstated if you do not actually work this expected overtime.

Estimated Annual Earnings Percent Increase: Your anticipated annual future earnings increase will be used to grow your assumed base rate of pay and bonus from year to year. The increase is effective in January of each projection year. Use the drop-down box to select the percentage you think your earnings and bonus may increase each year up to your Termination Date. For instance, if you entered an estimated base rate of pay of $50,000 and an increase of 5.00%, next year the earnings used in your calculation would be $52,500 and the following year your earnings would be $55,125.

Estimated Annual Bonus: This field is the annual bonus amount you expect to receive for each year of your estimated benefit projection. This bonus is **assumed to be paid during the first pay period of March** of each future projection year. This bonus is also increased annually according to the assumption you entered in the estimated future annual pay increase. The amount of any bonus that you received in the past is already included in your estimates. When estimating and entering bonus income for future estimates only include the PENSIONABLE amount as applicable (as certain bonus types are limited)".

Today's Applicable GATT Interest Rate: The GATT (General Agreement on Trades and Tariffs) interest rate is based on average yield of 30-year U.S. Treasury Securities in compliance with the Retirement Protection Act of 1994. This field is the **GATT interest rate that is currently in effect** if you terminated today. It should be helpful in determining the interest rate assumption you use in your estimated benefit projection. Note, that under the Pension Protection Act, new and more complex rules were established for determining the minimum lump sum amount. However, this plan continues to provide lump sum amounts determined on a GATT basis which generally produces larger lump sums. If upon termination the minimum lump sum as determined under the Pension Protection Act produces a larger lump sum, then this amount will be paid.

Cash Balance Interest Crediting Rate: This field is the GATT interest rate that will be used for your estimated benefit projection. Adjusting this field using the drop-down box will **allow you to estimate the impact** the interest rate will have on your benefit. The selection available in the drop-down box reflects the minimum interest rate allowed by the Plan. This rate will apply to all cash balance interest credits.

Terms of Use for the Prudential HCSC Pension Calculator

The HCSC Pension Calculator produces an estimate that may be different from actual benefits. It is not to be used to calculate an actual benefit at the time of retirement. If you intend to retire or terminate employment within the next six months or if you have any questions, please contact Prudential Retirement.

IRS limits for individual qualified plans, as well as IRS regulations limiting benefits under combined plans, can and will impact certain benefits. The law and IRS guidelines limit the amount of your earnings that can be included in any compensation calculations in your pension plan. This amount is limited to $265,000 during 2016. This amount is indexed for future years. The effect of these limits can only be accurately calculated when you actually terminate employment and your benefit is certified by a representative of the plan.

Though every effort has been made to ensure the accuracy of this system, errors can occur. In the event of incorrect or conflicting information, the governing Plan Document is the final authority.

Frequently Asked Questions

1. What interest rate is used to project benefits for the January 1 estimate?
Estimated projected benefits are based on the interest rate that is currently in effect for the HCSC pension plan. Since interest rates in the future could go up or down, we feel that on average, the use of the current rate would produce a reasonable estimate. You have the option to choose other rates of return for your benefit projection if you would like to see what would happen if rates went up or down.

2. What salary is included in the estimated projected benefits?
Actual pay was used for past completed pay periods, but the projections are based on your current base salary, excluding all future bonuses, commissions, overtime, etc. If a significant amount of your future earnings is a result of bonuses or commissions, the projected benefits on your benefit statement may be substantially lower than the future benefit you will ultimately receive. It is important to remember that your ultimate benefits will be based on your actual pay information at the point of your separation from service under the plan. When estimating and entering bonus income for future estimates only include the PENSIONABLE amount as applicable (as certain bonus types are limited)".

3. How do the pension projections work? Pension benefits are based on several factors. First, your earned pension benefits and your transition status are based on your employment history. For example, the pay throughout your employment while covered by the plan, your credited and vesting service, and your age at retirement or termination of employment all directly impact the amount of your benefit. In addition to your employment history, the applicable actual interest rates during your employment and at the time your benefit commences are significant factors in determining the amount of the actual benefit you will receive at the time of your separation from employment.

For estimates in the future, your projected benefits are calculated by projecting your current employment information. In many cases, this may be a good reflection of the benefits you will ultimately receive. However, your ultimate benefits will be based on your actual employment history, future salary, and the interest rates in effect during your employment. Because these benefit calculations are future estimates, your actual benefits will likely differ from the projected amounts shown on the benefit statements. Although the projections are estimates, they can be very helpful for you to use in preparing for retirement.

Estimated projected benefits are based on several assumptions. To provide you with a conservative range of projected benefit amounts your current base salary (without bonus or commissions) was projected into the future at a 0% rate of salary increase. In addition, the projected cash balance interest credits and projected lump sum is using the current interest rates in effect. This interest rate changes quarterly and can cause actual benefit amounts to differ from projected benefit amounts.

4. How are benefits determined under the cash balance formula?
The cash balance formula uses three variables to calculate your benefit.

- Beginning Cash Balance — This is the amount of your cash balance as of the end of each pay period. The starting or beginning balance for a new hire becoming eligible after one year of service is zero.
- Employer Contributions — Each pay period your cash balance will be credited with a percentage of that pay period's pensionable earnings according to the following schedule:

Age	Percent
18-29	3.0
30-34	3.5
35-39	4.0
40-44	4.5
45-49	5.0
50-54	5.5
55+	6.0

Plus 2% of pay in excess of the Social Security Wage Base ($118,500 for calendar year 2016)

- Interest Credits — Each pay period your cash balance will be credited with interest based on the average yield of 30-year U.S. Treasury Securities. The rate will change at the beginning of each calendar quarter based on government published rates applied to pension plans.

Your cash balance account represents your accrued benefit, and you can elect to receive the value of your cash balance account in the form of a monthly annuity payable for your lifetime. The amount of the annuity payment is based on the accumulated value of your cash balance account converted to a monthly form based on the interest rate in effect when you elect to begin receiving payments.

For example, suppose that you terminate employment with HCSC at age 50 and your cash balance account has a value of $100,000. This is the guaranteed accrued benefit. Depending on the interest rate in effect at your termination date, your monthly benefit may vary greatly. In this case, if the interest rate is 5.00% then you can expect to receive about $530 per month starting at age 50. However, if the interest rate is 4.00% then that monthly benefit changes to about $470 per month. Based on the interest rates in effect on the date of termination, each of these amounts is actuarially equivalent to the $100,000 cash balance account value.

5. How is my earliest benefit commencement date determined? How does that date impact the interest rate that is used to calculate my benefit?
Your earliest benefit commencement date is the first day of the third month following your termination date, or if Normal or Late retirement eligible, commencement date is the first of the month on or following termination dates. Termination date is pension plan termination date, which is last day worked plus unused PTO. You are eligible to receive a benefit from the plan at this date regardless of your eligibility for early retirement.
Your commencement date directly impacts the interest rate that is used to calculate the lump sum value of your benefit. There are three steps for determining the interest rate used to calculate your lump sum benefit:

1. Determine your lump sum payable date:

- As mentioned above, your lump sum payable date is the first day of the third month following your date of pension plan termination. For instance, if your pension plan termination date was June 15 then your lump sum payable date would be September 1. If Normal or Late retirement eligible, lump sum payable date would be the first of month coincident with or following your date of pension plan termination, or in example, July 1.

2. Determine the first of the quarter that your lump sum payable date is in:

- In the example above, the lump sum payable date is September 1. This date falls in the third quarter of the calendar year (from July 1 to September 30). The first of the quarter is July 1.

3. This interest rate is used to calculate the interest credits to your cash balance benefit

The table below illustrates this calculation for any termination date except normal or late retirees:

Pension Plan Termination Date	Commencement Date	First of Quarter	GATT * Date
Jan 1 to Jan 31	April 1	April 1	December
Feb 1 to Feb 28	May 1	April 1	December
Mar 1 to Mar 31	June 1	April 1	December
Apr 1 to Apr 30	July 1	July 1	March
May 1 to May 31	August 1	July 1	March
Jun 1 to Jun 30	September 1	July 1	March
Jul 1 to Jul 31	October 1	October 1	June
Aug 1 to Aug 31	November 1	October 1	June
Sep 1 to Sep 30	December 1	October 1	June
Oct 1 to Oct 31	January 1	January 1	September
Nov 1 to Nov 30	February 1	January 1	September
Dec 1 to Dec 31	March 1	January 1	September

6. How much could my projected benefits change if future interest rates differ from the current interest rate used in this statement?

Each future quarterly interest crediting rate will determine the level of benefits ultimately due from the plan. Each participant's cash balance account is accumulated and credited with "interest" each pay period using the quarterly interest rate in effect at the time. Over time, small differences in interest rates can compound into sizable differences in benefits. For example, over a 20-year career, the cash balance account could accumulate to be approximately 12% larger if average projected interest rates were 6.00% instead of 5.00%. Likewise, if average projected interest rates were 4.00% instead of 5.00%, the cash balance could be approximately 12% smaller. Conversely when the accumulated cash balance with interest is converted to an alternative monthly payment form, the interest rate has an effect on that result. For example a $1,000 ending balance converted at age 65 using 5.00% results in a $7.07 monthly amount versus a $6.48 monthly amount using 4.00%. Shown below is a table demonstrating the effect of various interest rates on an account that receives a $1,000 credit each year in the future.

Years of Accumulation	4% interest	6% interest	8% interest	10% interest
5	5,633	5,975	6,336	6,716
10	12,486	13,972	15,645	17,531
15	20,825	24,673	29,324	34,950
20	30,969	38,993	49,423	63,000

7. How is my vesting service determined?
Vesting service is the period of service used to determine your right to the benefits you have earned. Generally, vesting service includes all of your service with Health Care Service Corporation and is calculated on an elapsed-time

basis. It excludes breaks in service greater than 12 months. Depending on the length of your breaks, it may also exclude prior periods of service.

8. Why is a monthly annuity no longer available from the non-qualified pension plan?
Recent legislative changes have placed greater restrictions on the payment of benefits from non-qualified deferred compensation plans. In order to comply with these new rules and to simplify the administration of the plan, all annuity forms of payment were removed from the plan. The benefit is shown as a lump sum value (fully taxable at time of termination/payment).

9. If I am entitled to non qualified benefit, when may I receive it?
Upon termination you will receive information on commencing you qualified and non qualified benefit. Your non qualified benefits are payable in the form of a lump sum. You must elect to receive your non qualified benefits within 90 days of receiving your commencement package. Your non qualified benefit cannot be deferred until a future date.

10 I am entitled to a non-qualified benefit. Why don't I see this benefit when I model a qualified benefit for a commencement date which is greater than 90 days from my earliest commencement date?
As was stated in #9, you must elect your non-qualified benefit within 90 days of receiving your commencement package. Therefore if you are trying to model a commencement date greater than 90 days from the termination date entered, the system will not return a non-qualified benefit. (While you may not see the non-qualified component under these circumstances, you will be presented the non-qualified benefit when you receive your certified benefit package and you can isolate an estimate of that by selecting a modeling commencements date using the earliest payment due date following termination date.).

11. What if the information for my spouse is not correct?
Please contact Human Resources' Employee Services with any corrections or changes. Spousal information is now fed to Prudential each payroll.

12. Why do I see a Joint and 75% Contingent annuity form of payment?
The Pension Protection Act requires that a Qualified Optional Survivor Annuity (QOSA) be made available to married participants, and therefore, the plan now offers the Joint and 75% Contingent annuity as the QOSA form of payment.

13. Why do I now see Permitted Disparity wording on my statement?
This is standard wording required by Federal regulation under the Pension Protection Act and does not represent any change to your retirement program. You and your employer pay a tax on your compensation up to the annual Social Security Wage Base to provide for your future Social Security benefit. Compensation in excess of the annual Social Security Wage Base is not considered for determining Social Security benefits. Accordingly, the IRS permits employer plans to recognize this limit by providing additional benefit credit for those excess pay amounts. This is known as "permitted disparity" and is allowed by and in compliance with the provisions of Internal Revenue Code section 401(l). Providing added credits to compensation amounts in excess of the Social Security Wage Base is intended to provide some retirement income in recognition of this Social Security limit on compensation. The use of Covered Compensation or a fixed break point such as $550 in determining the benefit amount is another way to accomplish that objective.

14. What pay is included in your pension calculation?
Pay means your pensionable earnings (not total compensation) from the Company for services rendered during the calendar year as reported on your Form W-2. Pay excludes severance payments, retirement bonuses, service awards, accumulated sick leave, short-term disability reserve paid at termination, unused vacation (PTO) pay for any period extending beyond 501 Hours of Service, Performance Awards (from either or both the Health Care Service Corporation Long Term Performance Plan and/or the Health Care Service Corporation Long Term Incentive Plan) exceeding 75% of your Base Compensation, and all other extraordinary compensation. Pay includes unused vacation/paid time off (PTO) pay paid at termination (up to 501 Hours of Service), the amounts you contribute to a Section 125 plan or 401(k) plan as pre-tax contributions, certain amounts deferred under the Employer's nonqualified deferred compensation program, and (on or after January 1, 2009) any Performance Awards distributed from the Health Care Service Corporation Long Term Incentive Plan. Pay in excess of an indexed amount ($265,000 in 2016) is not included.