



September 24, 2020

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FACT SHEET

On September 24, 2020, the Board of Trustees of Erlanger Health System, as part of its continuing review of the Chattanooga-Hamilton County Hospital Authority Pension Retirement Plan and Trust (“Pension Fund” or “Fund”) and following a comprehensive analysis conducted over six months, voted to immediately implement three changes intended to help strengthen the Pension Fund to a healthier and more sustainable financial condition. These changes were developed in accordance with the administrative processes of the Pension Fund, following accepted actuarial principles, and are within the scope of the Board of Trustees’ fiduciary responsibilities.

- Erlanger currently employs approximately 6,900 associates. The vote by the Board **affects 1,300 active associates currently in the Pension Fund** who were hired on or before June 30, 2009; and approximately 1,400 participants who were vested when they were terminated.
- As of June 30, 2020, the Pension Fund was approximately **36% funded** (or, said another way, it is \$83.5 million underfunded). As of June 30, 2020, the Pension Fund balance was approximately **\$46.7 million**.
- Without timely changes in the administration of the Pension Fund and the temporary suspension of optional lump sum pay outs, the Pension Fund has an insecure future.
- The Board’s vote does three things to help strengthen the Fund:
 - While not provided for under the Fund document, the Fund has historically allowed participants who continue to work past age 65 to receive an actuarially adjusted benefit upon retirement. Eliminating this practice and otherwise bringing Fund administration into compliance with the Fund document **will reduce the unfunded liability by approximately \$8.6 million**. Any benefits already accrued by participants working beyond age 65 will remain in effect but those participants will not receive additional accruals going forward. In the future, a participant must weigh the benefits of continuing to work beyond age 65, receiving salary and benefits, including the defined contribution benefits offered by Erlanger, or retiring at age 65.
 - The second change will align the Pension Fund with most similarly situated defined benefit plans by changing the death benefit payable to the beneficiary of an active participant to 50% of the participant’s accrued benefit. This change is consistent with the current benefit payable to the beneficiary of a retiree receiving monthly payments. **This component will reduce the unfunded liability by approximately \$1.1 million.**
 - This change will **suspend the optional lump sum payment** form of benefit until the funded status of the Pension Fund reaches 80%.

- There are about 1,400 *vested but terminated* participants in the Pension Fund whose death benefits may change and whose ability to take an optional lump sum form of benefit because of the Board's decision. About 230 *active retirees* will not be affected by the changes to the Pension Fund.
- The single most significant factor in the financial health of the Pension Fund is the difference between the expected investment return and the actuarially equivalent interest rate used to determine the optional lump sum form of benefit. The Fund, as structured, does not permit a change in the actuarially equivalent interest rate. It is this difference, and the resulting drain of Fund assets that has prompted the changes, not Erlanger's financial condition or the recent pandemic.
- These decisions by the Board were based on strengthening the financial health of the Pension Fund and the Board's fiduciary duty to manage it and preserve it for all participants.
- The other defined contribution plans administered by Erlanger (403(b), 401(a) and 457, will not be changed in any way because of these changes, and the Board reaffirmed its commitment to the funding of the defined contribution plans in a competitive manner.
- The Board has already voted to contribute \$11.4 million for fiscal year 2020-2021, which is approximately \$2 million more than the minimum Actuarially Determined Contribution required by Tennessee law. The Board is directing management to make this full contribution immediately.
- Participants in the Pension Fund can visit www.ErlangerPension.com for more information or call 877-778-2100 to speak with someone about their specific situation.

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