alight

Actuarial Equivalent Forms of Payment FAQs

Rockwell Automation Pension Plan

October 2017

Frequently Asked Questions (FAQ) about the Rockwell Automation Pension Plan Benefit Payment Options

These FAQs provide an overview of the Pension Plan's choice of equivalent Forms of Payment.

The decision to retire and the decision of when to take your retirement benefits after you retire—two distinct decisions—are personal choices that are affected by many factors. There are many things you should consider when contemplating retirement. If you are currently employed and are thinking of leaving the work force and retiring, then you'll want to consider the financial impact and tradeoffs. Leaving the work force means more than the simple fact that you'll no longer receive a paycheck; it can mean no further contribution growth to your 401(k) and/or possibly no further growth to your pension; it can have a significant impact to the cost of your health care; it may positively impact the amount of taxes you owe (if your retirement income is less than your employment income); you may have less income, but you also may have fewer expenses in your retirement years. Before you decide to retire, we suggest that you first discuss your plans with your spouse, your financial advisor, and your family.

While your pension is meant to be one of several sources of income during your retirement years, unless you were already intending to retire, or unless you have sufficient wealth to cover you and your family throughout your retirement years, we do not recommend that you decide to start receiving your pension solely on the basis of how your estimated lump sum benefit changes from one estimate to another estimate. The decision of when to take your pension should be part of a larger financial plan for your retirement security. If you retire prior to Normal Retirement (age 65) you also must decide whether to receive your pension benefit early (before age 65) or to defer receipt of your pension until you reach age 65. If you take your pension benefit early, your benefit will be reduced to reflect the fact that you will begin to receive your benefit earlier than expected. This early reduction will apply regardless of the Form of Payment you choose and should be taken into account when you decide whether to start receiving your pension benefit before your Normal Retirement Date.

Participants retiring from the Rockwell Automation Pension Plan may have the option to choose how to have their benefit paid to them from a select list of available Forms of Payment, which might include:

- A monthly benefit paid for the life of the participant;
- A monthly benefit paid for the life of the participant as well as for the life of the participant's beneficiary should the participant predecease his/her beneficiary;
- A monthly benefit paid for the life of the participant with a guarantee that the plan will pay a minimum number of payments (either to the participant or, if the participant dies, to a named beneficiary); or
- Payment of the participant's entire benefit in a single lump sum payment.

The plan's Normal Form of Payment is converted to its actuarial equivalent alternative Forms of Payments. All Forms of Payment offered to the participant are relatively equivalent in value.

Q1. What is "Actuarial Equivalence"?

A1. "Actuarial Equivalence" involves calculating the value, at a given time (often the present), of a stream of future contingent payments.

Typically, each future payment is contingent on a specific person (or sometimes one of two specific people) being alive at the time of the payment. When determining the value of each potential future payment as of a given time (such as the present) each potential future payment is "discounted" to reflect: 1) the impact of the time value of money through an interest rate or rates, and 2) the impact of mortality through the probability that the specific person is alive at the time of the potential payment.

As a simplified example, let's assume an annual interest rate of 5%, an annual mortality rate of 10%, and Participant Adler is entitled to a single payment of $1,000 to be paid one year from now providing that Participant Adler survives to the date of distribution. Under these assumptions, Participant Adler's future benefit of $1,000 would be actuarially equivalent to $857.14 (= $1,000x (1-.10)/(1.05)) when valued as of today, one year before the benefit would otherwise be payable.

Q2. What does "the time value of money" mean?

A2. It is the concept that money available in the present time is worth more than the same amount of money available in the future due to its potential earning capacity.

Q3. Has my benefit gone down? It looks like it decreased.

A3. No, you have not lost any earned benefit. Once you satisfy the vesting criteria, the benefit you've earned from the Rockwell Automation Pension Plan, based on your years of service with Rockwell Automation and/or its subsidiaries, belongs to you and cannot be lost or taken away. If Rockwell Automation and/or its subsidiaries were to change the Plan in any way, the resulting change could not reduce or take away any benefit you have earned to date. (Note, however, that a portion of your benefit can legally be allocated to another person per court order in accordance with a Qualified Domestic Relations Order, or the Federal government can legally place a lien on your benefit to recover certain obligations, such as court ordered child care payments.)

When you decide to start receiving your retirement benefit, you'll be able to choose from a selection of options as to how you want to receive your pension. Your selection of payment options are derived from a starting point: this starting point is your monthly benefit amount payable to you (and only to you) for your lifetime starting on your Normal Retirement Date. Let's refer to this definition as Your Normal Retirement Pension. Regardless of whether Your Normal Retirement Pension is earning additional benefit or frozen, Your Normal Retirement Pension will not decrease.

If you decide to retire early (prior to your Normal Retirement Date), Your Normal Retirement Pension may be reduced to reflect the fact that you will begin to receive your benefit earlier than expected. Refer to the Summary Plan Description for details about Early Retirement Reduction Factors.

Q4. Why did the amount of my estimated lump sum decrease compared to an estimate I ran six months ago?

A4. When comparing two benefit estimates, let's assume two things:

- Your vested accrued benefit that's payable to you at Normal Retirement Date is the same amount for both estimates, and
- Your age as of the assumed benefit commencement date is the same for both estimates.

If the above assumptions are true and the amount of your lump sum in your latest pension estimate decreased compared to a prior pension estimate, then the most logical explanation is that the Plan's actuarial equivalent interest rate increased in the period of time from when the first pension estimate was determined to when the latest pension estimate was calculated. There are other changes that can contribute to lump sum differences, such as the Plan's actuarial equivalent mortality table, which is typically updated annually based on IRS publications. For example, a pension calculation performed using the 2017 mortality table will yield different lump sum results from the same calculation performed using the 2018 mortality table.

Q5. So why should an increase in interest rates cause my lump sum benefit to decrease?

A5. Your lump sum benefit (your total benefit payable to you now in a single sum) is equivalent to the present value of Your Normal Retirement Pension (your Single Life Annuity benefit payable at your Normal Retirement Date). In order to determine your lump sum benefit, your Single Life Annuity—a series of repeating monthly payments which will occur over a period equal to your lifetime—must be converted into a single sum amount valued in today's dollars, which is referred to as a "actuarial present value." [Refer to Q&A #1 "Actuarial Equivalence"]

This present value calculation of your Single Life Annuity requires two assumptions, which the Plan defines for us in its Actuarial Equivalent definition:

- MORTALITY – This calculation needs to make an assumption about the number of monthly Single Life Annuity payments you would receive for your lifetime, which is to say, this calculation must make an assumption about the remaining time you will live from your Normal Retirement Date until your assumed date of death. The calculation must also make an assumption about the remaining time you will live from the date you receive your lump sum benefit until your assumed date of death. Unlike what you might expect for personal life insurance, for example, these assumptions about your lifespan are not based on your individual personal data and health habits. Pension rules require that mortality be determined on an aggregated population and unisex basis.
- INTEREST RATE(S) – Because the calculation is converting the value of a stream of payments (a Single Life Annuity) payable over a period of time, interest is considered in valuing the accumulation or discounting of these payments over time. The Plan stipulates what interest rate basis should be used in the calculation, the point in time for establishing the interest rate and how long the established rate remains in effect.

To illustrate how mortality and interest rates impact the determination of your lump sum amount, let's look at an example. Let's assume that you are 65 years old and your Single Life Annuity is $750 per month or $9,000 per year. Let's also assume that you'll live until age 85, so we can expect that you will receive 20 years of payments. In order to determine the actuarial equivalent value of your Single Life Annuity in terms of a lump sum that's payable to you today, at age 65, we must discount the value of your 20 years of future payments, at $9,000 per year, to today. The sum of all future payments discounted to today equals the amount of your

lump sum benefit. The interest rate at which your future payments are discounted will determine the value of your lump sum payment. This is illustrated in the following table where we've calculated three different lump sum values, one based on an assumed 4% discount rate, another based on a 5% discount rate and a third lump sum amount using an assumed 6% discount rate:

Single Life Annuity (per year)	Year Paid	4% Interest (discount rate)	Present Value of SLA payment	5% Interest (discount rate)	Present Value of SLA payment	6% Interest (discount rate)	Present Value of SLA payment
$9,000	1	1.0000	$9,000.00	1.0000	$9,000.00	1.0000	$9,000.00
$9,000	2	0.9615	$8,653.85	0.9524	$8,571.43	0.9434	$8,490.57
$9,000	3	0.9246	$8,321.01	0.9070	$8,163.27	0.8900	$8,009.97
$9,000	4	0.8890	$8,000.97	0.8638	$7,774.54	0.8396	$7,556.57
$9,000	5	0.8548	$7,693.24	0.8227	$7,404.32	0.7921	$7,128.84
…	…	…	…	…	…	…	…
$9,000	18	0.5134	$4,620.36	0.4363	$3,926.67	0.3714	$3,342.28
$9,000	19	0.4936	$4,442.65	0.4155	$3,739.69	0.3503	$3,153.09
$9,000	20	0.4746	$4,271.78	0.3957	$3,561.61	0.3305	$2,974.62
Equivalent Lump Sum			**$127,205.45**		**$117,767.89**		**$109,423.05**

This example illustrates how a lower interest rate results in a larger lump sum amount, or conversely, how an increase in interest rate can result in a decrease in the lump sum value. Bear in mind this is a simplified example to illustrate general principles. Actual calculations under the Plan are performed under more specific, and more complex, methods.

The amount of your lump sum will be calculated in accordance with Plan rules, using interest rates and mortality tables prescribed by the IRS under §417(e)(3) of the Internal Revenue Code. The interest rates, which change on an annual basis, are derived from the monthly corporate bond yield curve as published by the U.S. Department of Treasury. Plan rules require that the amount of your lump sum calculated to be paid as of your lump sum distribution date be determined using the IRS interest rates in effect for the month of August for the year prior to the year of your benefit commencement date. The mortality table used in your lump sum calculation will be the IRS prescribed §417(e)(3) mortality table as published for the year of your benefit commencement date. For example, if you elected to receive your Plan benefit in the form of a lump sum and paid to you effective November 2017, then the amount of your lump sum benefit would be calculated using the interest rates in effect for August 2016 and the 2017 mortality table as published by the IRS.

When the August interest rates become available in September the annual mortality table for the coming year is also typically available. This gives you the opportunity during the fourth quarter of each year to model your pension benefit payable on different dates so you can make a more informed decision. You can view the amount of your benefit payable to you were you to receive it in the current year and compare it to the amount of your benefit amount payable to you were you to wait and starting receiving it in the following year.

A word about the 2018 mortality table

Unlike previous years, the IRS published the 2018 mortality table late on October 4, 2017. The table was subsequently made available to the administration system for the Rockwell Automation Pension Plan on October 13. If, during the months of September or October, 2017, you estimated your pension benefit (and lump sum) with a payment date in 2018, we recommend that you obtain another pension estimate, one that will now utilize the up to date §417(e)(3) mortality table and up to date §417(e)(3) interest rates.

Q6. What if I have more questions? Who can I contact?

A6. If you have questions about your Rockwell Automation Pension Plan benefit, call the Rockwell Automation Service Center toll-free at 1-877-687-7272 between 8 a.m. and 4 p.m., Central Time, Monday through Friday. Be sure to say “pension” on the main menu to be routed to the team of specialists.

About Alight Solutions

As the leading provider of benefits administration and cloud-based HR and financial solutions, we enhance work and life through our service, technology and data. Our 22,000 colleagues across 14 global centers deliver an unrivaled consumer experience for our clients and their people. **We are Alight. Reimagining how people and organizations thrive.**

alightsolutions.com