

SCAL Managers, Physicians, Supervisors, & Shop Stewards

Fast Facts

Changes to 2004 Performance Sharing Program & Variable Pay Program

Overview

The attached documents were designed to explain the changes in the 2004 Variable Pay Program (VPP) and the Performance Sharing Program (PSP) as well as provide support in responding to possible employee questions on the changes.

Included is:

- An advanced copy of the two-page PSP and VPP brochure that will be distributed on May 28.
- Fact Sheets and Talking Points with brief explanations of changes to the programs and charts listing the PSP and VPP goal requirements;
- An explanation of how the programs' payout pool is funded and operates;
- Sample payout situations; and
- Frequently asked questions

A PSP and VPP brochure will be distributed to KP employees on May 28,.

Programs' Fast Facts

- The 2004 goals for PSP and VPP's three- and five-percent incentive participants have been simplified to improve overall operation and employee understanding of the factors used to measure results.
- "Gate" requirements, along with "Threshold," "Target," and "Stretch" goal measurements used in last year's PSP and VPP, have been dropped. The 11 goals used last year have been replaced with five goals for 2004 -- each with a "Minimum" and "Maximum" Performance Level.
- Payout amounts for participants in PSP and VPP's three- and five-percent incentive plans will be determined by the Region's year-end goal performance and the amount of operating income generated above a set baseline to create a payout pool.
- The PSP and VPP payout is scheduled for late March 2005
- A payout will occur only if performance goals and funding requirements are met.

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Fact Sheet

2004 Performance Sharing Program & Variable Pay Program

Overview

This document and the frequently asked questions were designed to provide information to managers, physicians, supervisors, and shop stewards with information and responses to employee questions regarding the 2004 Performance Sharing Program (PSP) and the Variable Pay Program (VPP -- three- and five percent participants).

A two- page flyer with greater detail will be issued to KPSC employees with the May 28 payroll. By Tuesday, May 18, a communications tool kit that includes a PDF-formatted preview version of the flyer, suggested talking points, and responses to possible employee questions will be loaded on a Web site for downloading and use review by LMP co-Chairs, managers, physicians, HR leads, frontline supervisors and shop stewards.

This year's Performance Sharing Program (PSP) and Variable Pay Program (VPP) were changed to simplify their operation and improve employee understanding of the factors used to measure results. One basic rule for both programs continues unchanged: *a payout will occur only if the Region attains both its performance goal and funding requirements.*

Performance Goals

The "Gate" requirements, along with "Threshold," "Target," and "Stretch" goal measurements, have been dropped and replaced with five performance goals -- each with a "Minimum" and "Maximum" Performance Level (see chart).

The Five Performance Goals for the Southern California LMP Region	Value	Minimum Performance Level	Maximum Performance Level
Workplace Safety 1. Reduction in the number of reported Workers' Compensation Claims per 100 productive full-time employees as compared to the 2001 baseline	20%	17% reduction	35% reduction
Service <i>(scores are based upon member survey responses)</i> 2. Helpful, Courteous Office Staff	20%	91.0%	91.2%
3. Emotional Support Dimension (KP responsiveness to member medical condition concerns)	20%	65.3%	66.3%
Quality 4. Breast Cancer Screening Rate	20%	78%	78.5%
5. Pneumonia Vaccination for Members over 65	20%	80%	82.0%

How PSP and VPP Work

As in past years, the Region must achieve a minimum level of operating income to create an employee payout fund. This fund will have minimum and maximum payout levels. Employee payout amounts will be determined by the Region's year-end performance in each of the five goals and the amount of operating income generated at or above the minimum funding level to create the payout pool.

If Southern California generates sufficient operating income to fund the payout pool at its maximum level and maximum performance in all five goals is achieved, then qualifying PSP recipients will receive an estimated payout of \$2,000. This amount represents the highest award possible under the National LMP Agreement. If the opposite occurs, where the Region's operating income and goal performance reach only minimum levels, the estimated PSP employee payout will be \$200. Regional goal performance that falls between the minimum and maximum levels, combined with payout pool funding that is higher than the minimum, but less than the maximum, will be paid on a proportional basis.

Performance attainment will be determined this way:

- All performance goals will be valued at the same level. There will be five goals, each valued at 20 percent of the payout pool (5 goals x 20 percent for each goal = 100 percent of the payout pool).
- A maximum payout will be made for each goal in which the maximum performance level is met or exceeded (the amount employees receive is dependent on the amount in the payout pool).
- There will be no payout for a performance goal if its minimum performance level is not met.
- Any goal where the minimum performance level is met, but not exceeded, will produce a 50 percent payout for that goal, depending upon the funding available in the payout pool (goals in this category would be valued at 10 percent, instead of 20).
- A proportional payout will be made for goal performance that falls between the minimum and maximum performance levels (such a goal would be valued at more than 10 percent, but less than 20 percent).

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Talking Points

2004 Performance Sharing Program & Variable Pay Program

- The Performance Sharing Program (PSP) and Variable Pay Program (VPP) were changed for 2004 to simplify their operation and improve employee understanding of the factors used to measure results.
- One basic rule for both programs continues unchanged: a payout will occur only if the Region attains both its performance goal and funding requirements.
- The "Gate" requirements, along with "Threshold," "Target," and "Stretch" goal measurements, have been dropped.
- 2003's 11 goals have been reduced to five goals -- each with a "Minimum" and "Maximum" Performance Level (see chart).

The Five Performance Goals for the Southern California LMP Region	Value	Minimum Performance Level	Maximum Performance Level
Workplace Safety 1. Reduction in the number of reported Workers' Compensation Claims per 100 productive full-time employees as compared to the 2001 baseline	20%	17% reduction	35% reduction
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Quality 5. Breast Cancer Screening Rate 6. Pneumonia Vaccination Members over 65	20%	65.3%	66.3%
	20%	78%	78.5%
	20%	80%	82.0%

- The Region must achieve a minimum level of operating income to create an employee payout fund with minimum and maximum payout levels.
- Payout amounts will be determined by the Region's year-end performance in each of the five goals and the amount of operating income generated above the minimum funding level to create the payout pool.
- PSP payouts amounts can range from \$200 for minimum funding and goal performance to approximately \$2,000, if maximum funding and goal performance occur.
- The 2004 PSP and VPP payouts are scheduled for March 2005.

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PSP & VPP Payout Examples

2004 Performance Sharing Program & Variable Pay Program

Here are some "What If" payout questions that you might encounter from employees:

Example 1

What if the Region's payout pool achieves *minimum funding* and our goal performance reaches the *maximum performance level* in all performance goals (5 goals x 20 percent for each goal = 100 percent of the payout pool)? **Response:** Then qualifying PSP participants would receive an estimated payout of \$200.

Example 2

What if we achieve the *maximum funding* in operating income and maximum *performance* in all goals? **Response:** Then qualifying PSP participants would receive an estimated \$2,000, the maximum payout allowed under the National LMP Agreement.

Example 3

What if the payout pool hits *maximum funding* and our goal performance reaches *maximum performance* in three goals and minimum performance in two goals? **Response:** Then qualifying PSP participants would receive an estimated payout of \$1,600 (3 goals x 20 percent for each goal (60), plus 2 goals x 10 percent (20) = 80 percent of the maximum payout pool).

Example 4

What if we achieve more than *minimum funding* but less than the *maximum level* and our goal performance reaches the *maximum level* in all five goals? **Response:** Then qualifying PSP participants would receive the maximum payout amount allowed, based upon the total amount in the payout pool and the number of qualifying recipients.

Example 5

What if the Region achieves more than *minimum funding level* but less than the *maximum funding level* and Southern California's goal performance reaches the *minimum performance level* in the five performance goals? **Response:** Then qualifying PSP participants would receive the 50 percent of maximum payout amount allowed, based upon the total amount in the payout pool and the number of qualifying recipients.

Example 6

What if we achieve more than *minimum funding level*, but less than the *maximum* and our performance is greater than the *minimum* in the five performance goals, but less than *maximum*? **Response:** Then qualifying PSP participants would receive a proportional payout that would be calculated by adding up the values attained for each goal -- more than 10 percent, but less than 20 percent.

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Frequently Asked Questions

2004 Performance Sharing Program & Variable Pay Program

Why were the programs changed from last year?

We wanted to work with our partners to simplify the operation and understandability of PSP and VPP. Eliminating "gates" and "threshold," "target," and "stretch" goals and reducing the number of goals from 11 in 2003 to 5 in 2004 helped accomplish this.

Why did it take so long to tell us about the 2004 PSP and VPP?

Several issues had to be discussed and have a consensus reached among the LMP to allow these changes to occur. Some examples include: ensuring that we had the capability to fund the programs adequately; adjusting the payout mechanism to operate in an appropriate manner; making changes to various aspects of the VPP plan to maintain payout alignment with the PSP, while ensuring fair compensation to all levels of employees who participate in the VPP.

How large does the Payout Pool need to be to reach minimum and maximum funding levels?

The Region must generate operating income of \$480 million to fund the minimum payout estimated at \$200 for each PSP participants. Approximately \$600 million in operating income must be generated to provide an estimated payout of \$2,000 to each PSP employee.

What happens if enough operating income is not generated to meet the minimum funding requirements?

There is no payout if the minimum funding level is not met.

Do we get more of a payout if enough operating income is generated to exceed the maximum funding requirements?

No. If operating income exceeds the estimated \$600 million funding requirement to create the maximum payout pool, funds exceeding that amount will be used for reinvestment in the organization.

What is the Performance Sharing Program?

As defined in the 2000 National Agreement (LMP contract), the PSP recognizes and rewards employee contributions to Kaiser Permanente's success. The program began in 2002 and has continued. The central elements of the program are the same in 2004 as they were from the start: Meeting specific workplace safety, quality, service, and financial performance goals results in a payout that's over and above union-negotiated wages for Partnership union employees.

Are the employees in a work unit recently affiliated with a Partnership union covered under PSP?

Yes, these employees are covered from the date of their qualifying agreement.

Are a minimum number of hours required before a Partnership union employee is PSP-eligible?

No. There is no minimum number of hours required.

What happens if a Partnership union employee is covered by both a local plan (e.g., Optical Sales) and the national plan?

If employees have a local performance-sharing plan as well as the national plan, they will share in the higher payout of the two plans, but not both.

What if a Partnership union employee transfers to management or a nonpartner union? Does he or she still get a payout?

Not under PSP. Eligibility is determined by job classification on December 31. Only employees working on December 31 in a job classification covered by the 2000 National Agreement participate in PSP. However, depending upon the job, that employee may qualify for either VPP or even the Performance Recognition Program (formerly known as the Management Incentive Plan). Nonpartner union positions do not qualify for either PSP or VPP.

What happens to PSP-eligible employees who retire or die before the end of the year?

PSP-eligible employees who retire or die before December 31 remain eligible for a payout. The exact amount they or their heirs receive is prorated based on the number of hours worked before retirement or death.

I work a lot of overtime. Will I get a larger PSP payout as a result?

No, because individual hours are capped at 1,800 annually. Any PSP-eligible employee who works that many hours — or more — receives a full payout. There is no extra payment for working more hours than 1,800, and differentials and premiums are not included in any PSP calculations.

I work part-time. Am I still eligible for PSP?

Yes. PSP-eligible employees who work fewer than 1,800 hours receive a prorated payment. For example, if you worked 900 hours — which is one-half of the 1,800-hour cap — you would receive one-half of the PSP payout.

Are on-call employees eligible for PSP?

Yes, if they are represented by a Partnership bargaining unit covered by the 2000 National Agreement. Their payout will be prorated based on their compensated hours.

Are employees represented by unions not included in the Labor Management Partnership eligible for the PSP?

The Performance Sharing Program is a privilege of the Labor Management Partnership. Employees not represented by Partnership unions receive wage increases under their negotiated agreements only, and do not share in PSP. PSP does not change existing programs for employees who may be in non-management incentive programs.

Where do union employees from programs not affiliated with a specific Region fit in? How will PSP work for them?

Some eligible employees have job classifications that support more than one Region. These employees will receive a PSP payout if the members of their local bargaining unit receive a payout.

What is the definition of compensated hours?

PSP defines the compensated hours of each PSP-eligible employee the same way that the employee's local union agreement defines them.

How are employees paid for fractions of hours worked?

We use standard rounding rules. That is, values of .5 and above are rounded up to the next whole hour (e.g., 5.5 = 6.0).

Is the PSP payout subject to income taxes?

Yes.

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