

Executive Summary

Board of Governors Meeting, June 24, 2020

Amendment to Retirement Plan – (adopt selected provisions of the CARES Act)

Summary

This Action Item requests Board approval to amend the Citizens 401(a), 401(k) and 457(b) Retirement Plans to adopt selected provisions of the federal Coronavirus Aid, Relief and Economic Security (CARES) Act that went into law March 27, 2020 to assist employees during the COVID-19 pandemic. This proposed action matches the actions recently taken by the State of Florida for its 401(a) and 457(b) Retirement Plans.

History

Employees who are struggling to pay their bills amid the COVID-19 pandemic may be able to take advantage of relief granted by the federal CARES Act that was signed into law on March 27, 2020. The CARES Act allows companies to amend their 401(a), 401(k) and 457(b) retirement plans to provide employees with the following relief:

1. Required minimum distributions (RMD) for plan participants over age 70 ½ may be suspended if the participant elects to do so. This provision is currently effective through December 31, 2020.
2. Coronavirus-related hardship distributions are allowed up to \$100,000 through December 31, 2020. The \$100,000 limit would be an aggregate across all three Citizens-sponsored plans. The amount of the distribution cannot exceed the participant's combined balance in those plans. The early distributions will be penalty-free and could be repaid back to the plan within three years if the participant elects to do so. This type of hardship distribution must be for a financial hardship that is directly related to the Coronavirus, documentation will be required. This provision is currently effective through December 31, 2020.
3. Maximum loan amounts may be increased from 50,000 to \$100,000 (not to exceed the participant's account balance) for loans made through September 22, 2020. This is an aggregate limit that takes into account other outstanding loan balances.
4. Loan repayments due from the enactment of the provision until December 31, 2020 may be suspended for up to one year if the participant elects to do so. Loans would be re-amortized on January 1, 2021.

These four relief provisions can be made available at the option of Citizens. Citizens may elect any, all, or none of the provisions. If the federal law extends the effective dates of an option, the extension would automatically apply to Citizens.

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On May 24, 2020, the Citizens Retirement Plan Committee voted 7-0 to recommend that the Board adopt only item #1 (RMD relief) for the 401(a) and 401(k) plans and adopt all four of the provisions for the 457(b) plans. The committee based its recommendation on consideration for the potential needs of our employees as well as what the State of Florida adopted for its 401(a) and 457(b) retirement plans and the practices of other MassMutual clients. The different approaches between plan types can be explained by the fact that the 401(a) and 401(k) plans have been funded by company dollars for retirement purposes and should not be depleted before retirement, while the 457(b) plan is funded by employee dollars and may be more suitable for use in cases of emergency.

Recommendation

Citizens Retirement Plan Committee recommends the Board of Governors:

1. Approve proposed changes to the Citizens 401(a) and 401(k) Retirement Plans to allow only the Required Mandatory Distribution (RMD) waiver provision.
2. Approve proposed changes to the Citizens 457(b) Deferred Compensation Plan to allow:
 - a) Required Mandatory Distribution (RMD) Waiver
 - b) Penalty-free COVID related distributions
 - c) Maximum loan amount increases of up to \$100k from previous \$50k.
 - d) Loan repayment suspension for 1 year.
3. Authorize staff to take any appropriate or necessary action consistent with this Action Item.

CONTRACT ID	Amendment to Retirement Plan (Adopting Selected Provisions of the CARES Act)
BUDGETED ITEM	This amendment will not have any financial impact on Citizens.
EFFECTIVE DATE	This amendment will take effect June 24, 2020 and will remain in effect until December 31, 2020, or later if the effective dates are extended by the federal law.
PURPOSE/SCOPE	<p>This Action Item requests Board approval to amend the Citizens 401(a), 401(k) and 457(b) Retirement Plans to adopt certain provisions of the federal CARES Act to assist plan participants affected by the COVID-19 pandemic.</p> <p>On May 20, 2020, the Citizens Retirement Plan Committee reviewed this subject and voted 7-0 to recommend the Board approve the following amendments:</p> <p>The Citizens 401(a) and 401(k) Defined Contribution Plans would be amended to allow:</p> <ol style="list-style-type: none"> 1. Waiver of the Required Mandatory Distribution for participants age 70 ½ or older, effective through December 31, 2020. <p>The Citizens 457(b) Deferred Compensation Plan would be amended to allow:</p> <ol style="list-style-type: none"> 1. Waiver of the Required Mandatory Distribution for participants age 70 ½ or older, effective through December 31, 2020. 2. Penalty-free COVID-related distributions up to \$100,000, effective through December 31, 2020. 3. Loan repayments suspended, effective through December 31, 2020. 4. Maximum loan amount increased from \$50,000 to \$100,000, effective through September 22, 2020. <p>The different approaches between plan types can be explained by the fact that the 401(a) and 401(k) plans have been funded by company dollars for retirement purposes and should not be depleted before retirement, while the 457(b) plan is funded by employee dollars and may be more suitable for use in cases of emergency.</p> <p>If the effective dates are extended by federal law, the dates set forth above would be extended as well.</p> <p>MassMutual (Plan Administrator) and NFP (Financial Advisor) indicate approximately 50% of retirement plan sponsors are choosing to enact one or more of these optional provisions. There is no obligation to adopt any of the options.</p>
RECOMMENDATION	<p>The Citizens Retirement Plan Committee recommends that the Board:</p> <ol style="list-style-type: none"> a) Adopt and approve the 401(a), 401(k) and 457(b) Retirement Plan amendments to assist plan participants affected by COVID-19 through December 31, 2020 unless extended by federal law, as described in this Action Item; and b) Authorize the Citizens Retirement Plan Committee to take any appropriate or necessary action consistent with this Action Item.
CONTACTS	<p>Violet Bloom, Chair of the Citizens Retirement Plan Committee</p> <p>James Taylor, Director Total Rewards</p>