

Executive Summary

Board of Governors Meeting, December 16, 2020

Retirement Plan Administrative Services Agreement

Topic

Citizens' five-year contract with Mass Mutual Financial Group ("MassMutual") is scheduled to expire on May 31, 2021. Citizens Retirement Plan Committee voted unanimously in August 2020 to recommend exercising a 2-year renewal with a reduced fee structure and also voted unanimously in November 2020 to have Citizens pay the fees rather than the Plan participants (employees).

History

On November 10, 2015, in accordance with ITN No. 15-008, Citizens selected MassMutual to become its new provider of retirement plan administrative services.

On December 9, 2015, the Board approved the contract with MassMutual for an initial five-year term and an optional two-year renewal. The approved contract amount was \$500,000. The entire \$500,000 has not yet been spent.

On May 12, 2016, the contract became effective with an initial term ending on May 31, 2021. MassMutual's performance has met all expectations to date.

The contract set annual fees paid to MassMutual equal to .07 percent (.0007) of the amount of assets invested in the Retirement Plans (measured quarterly). For services in the first 49 months of the contract through June 30, 2020, Citizens has paid \$295,665 in fees. For the next 35 months (the remainder of the initial term and a two-year renewal), Citizens estimates the additional contract spend to be approximately \$350,000. The higher than expected cost stems from the overall assets growing more quickly, to this point, than expected and therefore fees tied to assets would be affected. The actual amount of future spend could be higher or lower depending on the performance of the stock market and other asset classes.

In negotiating the contract renewal, Citizens' staff requested both a reduction in fees and a change in the fee structure from an "asset-based" fee to a "per head" fee. According to Citizens' retirement plan financial advisor, the "per head" fee is becoming the more common and predictable way for retirement plans of this size to pay for administrative services. The "per head" fee bases the fee on the number of participants in the plan rather than the amount of assets in the plan.

MassMutual has offered Citizens the option to move to a "per head" fee of \$35 per year per participant in the 401(a) and 457(b) plans, and \$0 for the sixteen remaining participants in the frozen 401(k) plan. Currently, Citizens has approximately 1,250 participants in each of the 401(a) plan and 1,300 participants in the 457(b) plan. Assuming the number of participants remains fairly constant for the remaining term of the contract, the combined annual fee would be approximately \$90,000.

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If Citizens chooses to continue with the current “asset-based” fee of .07 percent, the annual fee would likely exceed \$105,000 in 2021, then more than \$120,000 in 2022, and then more for the final five months of 2023. [Calculations are based on total assets in the plans as of June 30, 2020 of \$129.7 million. Plan assets have been growing by more than 15% each year as (i) employees contribute money into their 457b plan, (ii) Citizens makes matching contributions into the 401a plan, and (iii) existing plan investments appreciate over time. As a point of reference, Plan Assets grew from \$71.3 million on June 30, 2016 to \$129.7 million on June 30, 2020.]

Currently, the fees are paid by Plan Participants through “revenue sharing” arrangements with the investment firms whose products are offered in the plan (American Funds, Vanguard, PIMCO, etc.). By switching to a “per head” fee, Citizens would end the “revenue sharing” model and begin assessing the fees in a more transparent and uniform manner. By removing the revenue sharing arrangements, plan assets will be moved into a higher share classes and will earn higher returns for participants. For these reasons, the elimination of revenue sharing arrangements is becoming the more common practice in the industry for plans of comparable size.

The Citizens Retirement Plan Committee has from time to time considered whether these administrative fees should be paid by the Plan participants (employees) or by Citizens. Based on a variety of factors, the Committee unanimously agreed on November 4, 2020 to recommend that Citizens pay the approximately \$90,000 in administrative fees beginning January 1, 2021. The reasons for Citizens paying these fees include:

- The proposed change in fee structure from asset-based to per-account has the consequence of creating a regressive fee for some employees
- Although benchmark-data suggests that these fees are frequently borne by the Plan participants, comparable plans at the State of Florida do not (and, in the case of certain State plans, cannot) charge such fees to its employees.
- Consideration of prior and recent feedback from the Board of Governors on the subject of ensuring a fairly applied and competitive Employee Compensation and Benefits offering.

Unrelated to the negotiations of fees, their calculation and the discussion regarding who will pay the Plans’ administrative fees, MassMutual notified Citizens on September 8, 2020 that it would be acquired by Empower Retirement. Various Citizens bodies including its Vendor Management Office and the Retirement Committee have found no objection to this business acquisition.

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Recommendation

This Retirement Plan Committee recommends the Board of Governors:

- a) Approve a contract amendment to the MassMutual contract for Retirement Plan Administrative Services to:
 - (i) restructure the annual fee to \$35 per account effective January 1, 2021, and provide that Citizens will pay the fee directly,
 - (ii) renew contract for a two-year term commencing June 1, 2021,
 - (iii) increase the not-to-exceed contract amount over the seven-year term from \$500,000 to \$650,000, and
 - (iv) acknowledge and approve the assignment from MassMutual to Empower Retirement, and
- b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.

ACTION ITEM

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| <input type="checkbox"/> Contract – New | <input type="checkbox"/> Committee or Board Minutes |
| <input checked="" type="checkbox"/> Contract – Amendment of Contract Terms | <input type="checkbox"/> Product Changes |
| <input checked="" type="checkbox"/> Contract – Additional Spend | <input checked="" type="checkbox"/> Other <u>Assignment and Renewal</u> |

Contract ID	Retirement Plan Administrative Services Agreement Contract No. 16-15-0008-00 VENDOR NAME: MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY ("MASSMUTUAL") ASSIGNEE NAME: GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY ("EMPOWER RETIREMENT")
Budgeted Item	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No Funding for this contract was previously provided through contributions from participants in Citizens' 401(a), 401(k) and 457(b) retirement plans. The Citizens Retirement Committee is recommending that Citizens begin funding the contract directly beginning January 1, 2021. The funding for 2021 was included as an expense in the 2021 HR budget.
Procurement Method	Citizens released Invitation to Negotiate (ITN) 15-0008 in September 2015. Eight responses were evaluated. After several negotiation meetings, website demonstrations and reference checks, MassMutual was selected as the vendor providing the best overall value to Citizens and the Plan Participants. On December 9, 2015, the Board of Governors approved a contract with MassMutual for an initial term of five years and an optional renewal term of two years.
Contract Amount	The current annual contract amount is .07% of Plan Assets. Effective January 1, 2021, the contract fees will be reduced to a flat fee of \$35 per individual account in the 401(a) and 457(b) plans. With the two-year renewal, Citizens expects the total 7-year contract amount will not exceed \$650,000. The Board previously authorized a contract amount of \$500,000. The entire \$500,000 has not been spent, and therefore this Action Item is requesting an additional \$150,000 in spending authority. Assuming the number of participants remains fairly constant for the remaining term of the contract, the combined annual fee would be approximately \$90,000.

<p>Contract Term(s)</p>	<p>The contract commenced on May 12, 2016 and is set to expire on May 31, 2021. This Action Item is requesting a two-year contract renewal. No further renewals are permitted under the contract.</p>
<p>Purpose/Scope</p>	<p>The services provided by MassMutual under this contract are essential to the proper operation and administration of Citizens’ 401(a), 401(k) and 457(b) retirement plans. MassMutual has performed these services to Citizens’ satisfaction throughout the contract term.</p> <p>After extensive negotiations, MassMutual agreed to reduce and restructure their service fees effective January 1, 2021, if Citizens agreed to exercise its 2-year renewal option. The current annual fee is set at .07% of total Plan Assets. The anticipated savings to Plan participants is discussed in the attached Executive Summary.</p> <p>On December 9, 2015, the Board of Governors delegated authority to oversee and administer the retirement plans to a 7-member Retirement Plan Committee.</p> <p>On August 10, 2020, the Retirement Plan Committee voted 6-0 (with one member absent) to recommend the 2-year renewal and new fee structure to the Board as set forth in this Action Item.</p> <p>On September 8, 2020, MassMutual notified Citizens that Empower Retirement would be acquiring MassMutual’s retirement plan business for \$3.4 billion. Citizens’ Vendor Management Office has reviewed the proposed merger and considers Empower Retirement to be a responsible vendor. Citizens staff and the Retirement Plan Committee have no objection to the assignment of this contract from MassMutual to Empower Retirement.</p> <p>On November 4, 2020, the Retirement Committee voted 7-0 to recommend that Citizens begin paying the contract fees of \$35 per account (estimated \$90,000 per year) effective January 2021 instead of Plan participants absorbing this expense.</p>
<p>Recommendation</p>	<p>The Retirement Plan Committee recommends the Board of Governors:</p> <ul style="list-style-type: none"> a) Approve an amendment to the MassMutual contract for Retirement Plan Administrative Services Agreement to: <ul style="list-style-type: none"> (i) Restructure the annual fee to \$35 per account effective January 1, 2021, and provide that Citizens will pay the fee directly, (ii) Renew the contract for a two-year term commencing June 1, 2021, (iii) Increase the not-to-exceed contract amount over the entire 7-year term from \$500,000 to \$650,000; and

ACTION ITEM

	<p>(iv) Acknowledge and approve the assignment from MassMutual to Empower Retirement; and</p> <p>b) Authorize staff to take any appropriate or necessary action consistent with this Action Item.</p>
Contacts	<p>Violet Bloom, Chair of the Citizens Retirement Plan Committee</p> <p>James Taylor, Director Total Rewards</p>