



Memorandum

To: Citizens Board of Governors
From: Citizens Retirement Plan Committee
Date: September 26, 2018
Subject: Recommendation to Adopt New Retirement Plan Documents

I. Background. Citizens maintains three separate employee retirement plans:

- **401(a) Defined Contribution Plan.** Under this plan, Citizens matches the amount an employee contributes to their 457(b) plan, up to 8% of the employee's salary. The plan became effective on August 1, 2002. Approximately 1,260 current and former employees participate in the plan. Plan assets were approximately \$46 million as of 3/31/2018.
- **457(b) Deferred Compensation Plan.** Under this plan, Citizens employees may direct salary payments to a tax deferred retirement account (up to the annual limit set by the IRS). The plan became effective on August 1, 2002. Approximately 1,300 current and former employees participate in the plan. Plan assets are \$53 million as of 3/31/2018.
- **401(k) Defined Contribution Plan (the "Frozen" Plan).** This plan has approximately 20 participants and \$300,000 in assets. The plan became effective on January 1, 1995 and was frozen effective August 1, 2002. The plan was used by predecessor entities and has never been active since Citizens was created in 2002. Citizens has never made contributions into this plan.

On May 16, 2016, MassMutual became the recordkeeper and administrative services provider for the three plans. The contract with MassMutual is renewable by Citizens until May 31, 2023.

On August 20, 2018, this Committee voted 7-0 to recommend amending and restating Citizens' current 401(a), 457(b) and 401(k) plan documents in order to take advantage of MassMutual's retirement plan resources and templates. The Committee was advised during this process by its financial advisor (FiduciaryFirst) and outside counsel (Constangy, Brooks, Smith & Prophete).

The documents must be formally approved by the Board of Governors to become effective. The proposed effective date is January 1, 2019.

II. Basis for Recommendation. The Committee recommends amending and restating the plan documents for three primary reasons:

- **Leveraging MassMutual's Expertise.** The proposed plan documents are designed to take greater advantage of MassMutual's systems and personnel to perform day-to-day administrative tasks otherwise performed by Citizens staff (particularly in the area of loan processing and hardship withdrawals). These specialized systems and personnel should reduce the chances of human error. These services are already built into the annual fee MassMutual charges Citizens (no additional fees will be incurred).

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- Ensuring Regulatory Compliance. Citizens' current retirement plan documents must be regularly reviewed and amended to comply with changing federal regulations. MassMutual's proposed 401(a) and 401(k) plan documents have been "pre-approved" by the IRS with respect to those regulations. The 457(b) plan document is not eligible for IRS pre-approval. Citizens' contract with MassMutual includes ongoing "plan design" consulting services in which MassMutual works, at no additional fee, to ensure that the three plan documents are and will remain compliant with regulatory requirements.
- Replacement of Unsupported Lincoln Financial 401(k) Plan Document. The Citizens 401(k) plan currently uses a template plan document provided by Citizens' former plan administrator (Lincoln Financial). Citizens is no longer authorized to use that document and neither Lincoln nor MassMutual are standing by the document from a regulatory compliance standpoint. Citizens has been advised by both companies that it must adopt a replacement.

III. Summary of Proposed Changes. Except as noted below, the recommended plan documents will not change any significant aspect of Citizens' current retirement plans.

- Vesting Rules for Returning Employees. Contributions by Citizens to an employee's 401(a) account are not fully "vested" until the employee completes three years of service. Currently, an employee who leaves Citizens but is re-employed within one year of a leaving receives credit for previous time earned as if the break had not occurred. Employees who are re-employed within 2-5 years of leaving receive credit for previous time earned only if he/she stays for one year following re-employment. Employees who are re-employed after five years will not get credit for previous time earned. Because MassMutual cannot administer this complexity, the proposed plan allows re-employed persons to receive credit for all previous time earned unless the Break in Service is 5 consecutive years or more. The financial impact of this change, if any, will be negligible. *[See Section 8-6 of the 401(a) Adoption Agreement and Section 6.08 of the 401(a)/401(k) Basic Plan Document.]*
- Hardship Withdrawals. Participants in the 401(a) and 401(k) plans are allowed to withdraw money from their accounts without incurring a penalty if they can demonstrate a "hardship." The proposed plans use IRS "safe harbor" rules to define what constitutes a hardship. The safe harbor definition is slightly broader than the definition used in the current plan documents (e.g., preventing eviction, covering funeral expenses, and paying for repairs to residences would now be considered hardships). *[See Section 10-1 of the 401(a) and 401(k) Adoption Agreements, and Section 7.10(e) of the 401(a)/401(k) Basic Plan Document.]*
- Spousal Consent. The recommended plan documents will not require spousal consent for a participant to name an alternate beneficiary or change a beneficiary designation. The current 401(a) plan document requires spousal consent but the current 457(b) plan does not. *[See Section 9-2(b) of the 401(a) Adoption Agreement and Section 9.02 of the 401(a)/401(k) Basic Plan Document.]*

IV. Conclusion. For the reasons stated above, the Citizens Retirement Plan Committee recommends adoption of the MassMutual template plan documents for each of the three retirement plans.