

FREQUENTLY ASKED QUESTIONS

New Lay Retirement Plan as of 7/1/2014

The following list of frequently asked questions is intended to answer many of the inquiries you might have about the decision to freeze the current Diocesan Defined Benefit Lay Pension Plan (the "Plan") and replace it with a Defined Contribution Retirement Plan ("DC Plan").

- Updates to the current Plan document are in process as is the DC Plan document. Both of these will be posted to the website once completed.
- If there is a difference between any information presented below and the Plan document, the Plan document will govern.

1. What is happening?

The current Defined Benefit Lay Pension Plan of the Diocese of Santa Rosa will be "frozen" effective June 30, 2014. That is, your accrued pension benefit will not increase with additional service to the Diocese or increases in your pay after the freeze date.

The plan freeze does not reduce or eliminate any benefits that have been earned through the freeze date. A freeze means that no further benefits will be accrued under the current plan.

2. Why is this happening?

The need for change is being driven by the unfunded pension liability of \$20.1 million and the very high location (parish/school, etc.) contribution rate for the current Lay Pension Plan. The unfunded pension liability exceeds Diocesan Lay Pension Plan assets. The current pension plan is only 56% funded. This is based on financial reporting rules applied in our latest Diocesan Audit (June 30, 2013). We recognize that the current contribution rate of 10.9% is an additional hardship for the locations (parishes/schools, etc.) and even at the 10.9% rate, the unfunded liability could grow due to reasons completely beyond the control of the Diocese.

3. When is this happening?

The freeze will be effective June 30, 2014.

4. What does this mean?

Your pension benefit will be determined as of the freeze date. That amount will remain unchanged regardless of future pay increases or length of service.

5. Will I lose any existing benefits?

No, your pension benefit earned through the freeze date will not be reduced as a result of this change.

6. Will I continue to earn pension benefits between now and the freeze date?

Yes, you will continue to accrue pension benefits as normal until that time.

7. Is my accrued pension benefit at risk? How is it protected?

The Diocese intends to continue to make contributions to the current Plan with the funds collected from its locations in order to fund all benefits accrued through the freeze date. The funds in the current Lay Pension Plan are held by the Plan's trustee, US Bank. The funds in the trust can only be used for their stated pension purpose.

8. What does it mean to be “vested” in the current Lay Pension Plan Retirement Plan?

To be “vested” refers to a plan participant’s right to receive his/her accrued pension benefit in the following ways:

- By completing five years of credited service at a Diocesan location while working 20 or more hours per week, or
- If the sum of your age plus services equals 55 or more while you are employed at a Diocesan location.

Service after the freeze date will count for vesting purposes.

9. What retirement benefit will be provided for employees after the freeze date?

Effective July 1, 2014 the Diocese will provide retirement benefits through a Defined Contribution Plan (DC Plan) for eligible employees.

10. I am retired and currently receiving benefits. How will this affect me?

There will be no impact to current retirees. You will continue to receive pension benefits as you do currently.

11. I am a current employee who is vested in the current Defined Benefit Plan; what action do I need to take now?

You won’t need to take any immediate action, but you should be aware of the following:

- In late December an individualized *estimated* benefits statement was mailed to you showing your *estimated* accrued benefit as of June 30, 2014. The benefits statement is *based upon wages from the 2012 calendar year wage census*. It also includes a comparison of the pre-freeze projected Defined Benefit Plan monthly benefit at 65 with a projected benefit under the new Retirement Plan (frozen Defined Benefit plus the new Defined Contribution account).
- In September, 2014, you will receive an updated benefits statement showing your *actual* frozen benefit as of June 30, 2014.
- In the coming months, you will also receive additional information from the Diocese about the new Defined Contribution Retirement Plan that will be implemented after the freeze date.

12. I am no longer working at a Diocesan location, but think I am owed a pension. What does this mean to me?

You must have worked for a Diocesan location for five full years or the sum of your age plus your years of service equals 55 in order to be vested in the current Lay Pension Plan. If you are vested in the Plan and no longer working for a Diocesan location, there will be no change or reduction to the benefit you have earned. If you are unsure as to your vesting status, please call the Benefits Office at (707)566-3349.

13. Can I start receiving my pension benefits now?

The plan freeze does not change any rules related to when an individual may begin receiving pension benefits. The current Pension Plan allows for former employees to commence their pension at age 65. Alternatively, you can retire early with a reduced pension if you are at least age 55 when you stop working for a Diocesan location and you have completed at least 10 years of service with the Diocese.

14. What is the value of my pension benefit?

Your pension benefit will be based on the current plan formula, which uses your years of service and compensation history to compute your individual benefit. In late December, 2013, an individualized estimated benefits statement was mailed to you showing your *estimated* accrued benefit as of June 30, 2014. After the freeze date of June 30, 2014, you will receive an official, final pension statement, which will reflect your service, compensation history and *final* accrued pension benefit through the freeze date.

15. I meet the requirements to start receiving pension benefits, how do I begin doing so?

You should contact the Benefits Office *at least 60 days* prior to your anticipated retirement date. You will be asked to complete an application and provide proof of your age. In some cases, you may also need to provide proof of your spouse's age and a copy of your marriage certificate.

16. I work at more than one Diocesan location. Does my combined service count toward my pension benefit?

If you work at more than one location, you are eligible to accrue a pension benefit provided you work 20 or more hours per week with five years of credited service as defined by the Plan document. A copy of the Summary Plan Description is available at www.srdiocese.org.

17. What happens if I stop working at a Diocesan location before June 30, 2014?

Your eligibility for a pension benefit and the value of that benefit will be determined based on the final date of your employment.

18. What if I am working 20 or more hours per week at a Diocesan location but not vested as of June 30, 2014?

Although your accrued benefit will be determined based on your years of service and compensation history as of the freeze date, service rendered after that date will be counted for vesting purposes and early retirement eligibility. If you terminate employment at a later date and have at least five years of service or your age plus years of service equals 55 or more, you will be eligible to receive a benefit from the current plan. The value of that benefit will be based on your compensation history and years of service through the freeze date only.

19. Will I be able to take my accrued benefit under the current Defined Benefit Plan as a lump sum after the freeze date and forego a future pension benefit when I retire?

There is currently not an option to take a lump sum payment. The Diocese may investigate this option in the future.

20. Will the Diocese replace the pension plan with a different retirement benefit for employees after the freeze date for the current pension plan?

Yes. The Diocese remains committed to assisting its employees in retirement. The freeze of the current pension plan is being implemented to protect all benefits that employees have currently earned. After the freeze date, the Diocese will establish what is known as a *Defined Contribution Retirement Plan (DC Plan)*. A defined contribution plan is one in which participants will have choices regarding how their funds are invested.

When the defined contribution plan is implemented:

- The Diocese will contribute 5.5% of each individual's annual compensation to the defined contribution plan account with the funds collected from the locations.
- In addition, employees at least 40 years old, with 10 or more years of service as of June 30, 2014, will have an additional percentage contributed to their defined contribution account.
- Eligible employees (working 20 or more hours per week) with at least one year of service will be automatically enrolled in the DC Retirement Plan and will be immediately vested in the new plan.
- By January 1, 2015, employees may also make pre-tax contributions of 3% of annual income to their individual accounts in addition to the funds provided by the Diocese.

In the coming months, you will receive additional, detailed information about the defined contribution plan.

21. What are some benefits of a Defined Contribution Plan?

- Contributions to a DC Plan are made directly into an individual account for each employee.
- There will be a set of options to invest the contributions in and the employees can make changes to their investment choices online.
- The account is portable, and should an employee leave employment at a Diocesan location; the account can be rolled over to an existing IRA or possibly into a DC Plan at their new employer.
- The account can also be included in an estate and left to their heirs.
- The account is held at a custodian.

22. What percentage is being contributed to the current Lay Pension Plan and how does that compare to the contribution that will be made to the Defined Contribution Retirement Plan?

Diocesan locations (schools, parishes, etc.) are currently contributing 10.9% of wages to the Lay Pension Plan. At inception, the plan was designed with a 6.5% contribution rate that when combined with investment growth of 7.5% for the plan assets would fund benefit payments. This worked until in 2000 and 2008 there were very large declines in the stock market. The required contribution rate was increased over those years until reaching the current level of 10.9%. *Under the current plan the pension benefit calculation for an individual doesn't depend upon plan assets, it is based upon length of service and average earnings for the three highest paid consecutive years over the last ten years.*

Annual pension benefit = 1.1% X years of service X final average highest earnings

Below is a comparison of the current contribution rate and the new DC Plan rate:

	<u>Current Plan</u> (Defined Benefit)	<u>New Plan</u> (Defined Contribution)
Base Level	5.5%	5.5%
Transition Benefit		1.7% *(see below)
Subtotal	5.5%	7.2%
Fund Unfunded Liab.	5.4%	2.9% (estimated % required for 20 years)
Total	10.9%	10.1%

The base level for the current plan in 1996 was set at a 5.5% contribution rate with an assumed asset investment return of 8%. The base level contribution for each plan is 5.5%. The overall contribution, especially for the next seven years is approximately a 7% reduction. The contribution % needed to fund the unfunded liability drops to 2.9% as the contribution is amortized over 20 years.

* Transition Benefits in place for employees age 40 and over with at least 10 years of service. Transition benefits in place for 7 years.

23. My location has contributed 11% of my salary, not 10.9%. Where is the extra .1% going to?

The locations have been contributing a total of 11% of salary: 10.9% for the pension plan plus an additional .1% for lay employee group term life insurance. Under the new DC Retirement plan, the total location contribution actually be 10.2% (10.1% retirement + .1% life insurance).