

## Frequently Asked Questions Regarding the Diocese of San José

### Lay Employees' Retirement Plan

December 19, 2019

The Diocese of San José is committed to providing our employees with competitive retirement benefits and recognizes the importance of helping our employees plan for their financial future. Our retirement program is an integral part of our employees' overall benefits package.

Please read the *updated* Frequently Asked Questions (FAQs) below to become familiar with this upcoming change that will impact current employees effective July 1, 2020. The transition to a 403(b) retirement plan will be designed to be as seamless as possible, but the Diocese recognizes there will be many questions and conversations leading to full implementation on July 1, 2020. The following list of frequently asked questions is intended to answer a preliminary set of questions our employees may have. These FAQs will be updated continuously throughout the process.

If there is a difference between any information presented below and the Plan document, the Plan document will govern.

#### **1. What is happening?**

The retirement benefits for current lay employees of the Diocese of San José will be changed effective July 1, 2020. Therefore, your current accrued pension benefit will not increase with additional service to the Diocese of San José or with increases in your wages after the frozen date of June 30, 2020. The Diocese will be offering a 403(b) retirement plan to replace the current pension plan.

#### **2. What is a 403(b) plan?**

A 403(b) plan, also known as a tax-sheltered annuity (TSA) plan, is a retirement plan for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers, which is invested in either annuities or mutual funds. Currently, the Diocese of San José offers voluntary enrollment in a 403(b) program as a supplemental savings option for employees. The benefits of a 403(b) include, but not limited to: pre-tax savings that lowers your taxable income, a choice of diversified investment options.

#### **3. Who is eligible for the 403(b) contribution and match benefits?**

All lay employees who are expected to work 20 hours or more per week will receive the employer contribution of 3% of compensation to the new 403(b) Plan. In addition, a lay employee can make an elective salary deferred contribution up to 3% that will be

equally matched up to 3% by the Diocese of San Jose. All employees will automatically be enrolled in this option unless an employee elects otherwise.

All employees, regardless of his or her contribution rate, will receive a 3% employer contribution. The Diocese will also match dollar-for-dollar up to 3% of compensation. For example, employees who contribute 3% of their compensation can expect to receive 9% in total additions to the plan. These contributions are subject to statutory limits set by the IRS.

All eligible employees are immediately vested in this plan, regardless of years of service, on July 1, 2020, or at the date of hire.

#### **4. Why is this happening?**

Over the past few years, there has been a growing trend among companies, non-profits, and religious institutions to move away from providing retirement benefits through pension plans (such as our former and current pension plan). Instead, 401(k) plans for private companies or 403(b) plans for nonprofits and religious institutions have become the primary retirement vehicle for employees.

Like many businesses and non-profits, the Diocese of San José has determined that it cannot financially support the pension program as it is currently structured. The Diocese has decided to replace the existing plans and move to a 403(b) retirement plan that it can support into the future to honor its commitment to assist employees in retirement.

Due to the long-term financial challenges concerning the Lay Employees' Pension Plan, the Diocese is taking action now to protect the pension benefits that are due to all current and former employees who are or will become vested in the plan, and to ensure that employees experience no loss in ongoing benefits earned through June 30, 2020.

#### **5. How did this decision come about?**

The Diocese of San José engaged a task force of experts in human resources and finance to provide an independent review of our current retirement benefits. The task force included Fr. Michael Hendrickson – Pastor, St. Mary's Gilroy / Priest Council – along with finance and human resources professionals in Silicon Valley.

The result of the evaluation was the recommendation that moving to a 403(b) retirement plan would provide the Diocese with the financial sustainability and structure needed to support lay retirement at a comparable level to what has been offered into the future.

After thoughtful discernment, prayer, and consultation, the Lay Pension Board and Diocesan Finance Council accepted the proposal by the task force to replace the current Lay Employees' Pension Plan with a new 403(b) retirement plan effective July 1, 2020. Bishop Cantú approved the recommendation for implementation.

Research shows that 403(b) plans provide employees with greater control over the investment of their retirement assets while providing organizations with a more predictable way of managing and funding their retirement programs.

**6. When is this happening?**

The current program will be replaced on July 1, 2020. This provides the Diocese time to plan carefully, select a new benefit vendor, roll out a communications and education plan to all employees, and provide critical answers to employees throughout the process.

**7. What does this mean to my pension benefits?**

Your pension benefit will be determined as of the frozen date of June 30, 2020. That amount will remain unchanged regardless of future pay increases or length of service.

**8. Will I lose any existing benefits?**

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

**9. Will I continue to earn pension benefits between now and the frozen date?**

Yes, lay employees will continue to accrue pension benefits as usual through June 30, 2020.

After June 30, 2020, your pension benefits will be frozen in this account and remain available to you at eligible retirement age. Any additional investment will be made in the new 403(b) plan.

**10. Is my pension benefit at risk? How is it protected?**

The Diocese of San José will make contributions to the Lay Employees' Pension Plan to fund all benefits accrued through the frozen date of June 30, 2020. The funds in the Lay Employees' Pension Plan are held in a trust that is separate from other Diocesan assets or entities. The funds in the trust can only be used for their stated purpose of funding the pension. Annual statements will be available through the Pension Live website early next year.

**11. What does it mean to be "vested" in the Lay Employees' Pension Plan?**

To be "vested" refers to a plan participant's right to receive his or her accrued pension benefit. A participant becomes vested in the Lay Employees' Pension Plan after

completing five (5) years of credited service to the Diocese of San José while working 20 hours or more per week under the plan rules.

**12. What retirement benefits will be provided for employees after the frozen date?**

Effective July 1, 2020, the Diocese of San José will provide retirement benefits through a 403(b) plan for eligible employees.

**13. I am retired and currently receiving pension benefits, how will this affect me?** There will be no impact on current retirees. Current retirees will continue to receive pension benefits as they do currently.

**14. I am a current employee who is vested in the pension plan; what action do I need to take now?**

Currently, vested employees won't need to take any immediate action. The Diocese will make every effort to keep them informed throughout the process.

**15. I am no longer working at the Diocese of San José, but I think I am owed a pension. What does this mean to me?**

Former lay employees must have worked for the Diocese of San José for five (5) full years to be vested in the Lay Employee's Pension Plan. If you are vested in the pension plan and no longer work for the Diocese of San José, there will be no change or reduction in the benefit you have earned.

**16. Can I start receiving my pension benefits now?**

The pension plan allows former employees to receive pension benefits beginning at age 65. This change does not change any rules regarding when an individual may start receiving pension benefits.

For Plan A benefits, monthly benefits can start at any date following later of:

- 1) age 55 with 15 Years of Service and
- 2) termination.

For Plan B benefits, a cash balance can be paid at any age following termination. An annuity can be paid at age 65

**17. What is the value of my pension benefit?**

Your pension benefit will continue based on the current plan formula, which uses your years of service and compensation history to compute your individual benefit.

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

You should contact Patricia Roldan ([patricia.roldan@dsj.org](mailto:patricia.roldan@dsj.org)) in the Diocese's Human Resources department approximately 60 days before your anticipated retirement date. You will be asked to complete an application.

**19. What happens if I stop working for the Diocese of San José before June 30, 2020?** Your eligibility for a pension benefit and the value of that benefit will be determined based on the final date of your employment with the Diocese of San José.

**20. What will happen to our current 403(b) Plan? Will it be discontinued?**

Currently, the Diocese of San José offers voluntary enrollment in a 403(b) program as a supplemental savings option for employees. The Diocese will cease supporting the current 403(b) program on June 30, 2020 and will begin contributing to its new 403(b) plan beginning July 1, 2020. Your funds in your current 403(b) Plan will continue to be available for retirement. There will not be additional investments made to this account. Employees will continue to be responsible for managing their old 403(b) accounts. The Diocese encourages employees to contact their current provider to determine your ability to roll over your funds to the new 403(b) Plan.

**21. What happens for those employees who are new, hired within the last five years and not vested yet in the current Plan B Pension Plan?**

The employees who have less than five years of service will continue to vest as required; however no additional funds will be contributed after June 30, 2020. Once their length of service has met the 5-year requirement, their earned Plan B funds will be vested.

**22. Will a financial advisor be available?**

Graystone Consulting, a business of Morgan Stanley was selected, an announcement will be distributed to employees about the services available from Graystone Consulting, and meetings will be scheduled for all employees. A listing of services and the enrollment period will be provided at that time.

**23. What is the most an employee can contribute to the 403(b)?**

According to the IRS regulations that are updated yearly, the following contribution limits apply:

For the calendar year 2019, the most a taxpayer can contribute to as an elective deferral to a 403(b) Plan is \$19,000, but if you are age 50 or older, you can contribute an additional \$6,500 as a "catch-up" contribution.

For the calendar year 2020, the most a taxpayer can contribute to as an elective deferral to a 403(b) Plan is \$19,500, but if you are age 50 or older, you can contribute an additional \$6,600 as a “catch-up” contribution.

You should consult your own tax, legal, and accounting advisors before engaging in any transaction.

**24. How will a vendor be selected?**

The Diocese will begin the process of completing a competitive Request for Proposal (RFP) that outlines the needs and specific requirements for potential vendors to ensure a robust 403(b) retirement plan. Our goal is to find a leading provider of retirement benefits, with whom the Diocese will partner to roll out this new retirement plan. The vendor will provide financial information, counseling, and education to eligible employees.

**25. What was the result of the RFP Process?**

The Diocese of San Jose reached out to various other dioceses to request recommendations. A list of vendors was developed both locally and nationally.

An RFP Task Force consisted of experts that included experts in the financial area. The RFP Task Force reviewed seven (7) requests for proposals and recommended that three (3) of the seven (7) vendors continue as the three (3) finalists. The final three (3) vendors were invited to conduct an in-person presentation to the RFP Task Force. The RFP Task Force made a recommendation and presented the information to the Lay Retirement Board. The Lay Retirement Board approved the selection and ranking for the Finance Council’s review and sent the recommendation to the Bishop for approval. The Finance Council and Bishop approved the recommendation and requested the Chief Financial Officer contact the finalist to negotiate the pricing of the new 403(b) Retirement Plan.

**26. What happens after that the RFP vendor has been approved?**

Once we have negotiated the best pricing for services, we will select the vendor and begin a planning process. This will include partnering with the vendor for the 403(b) rollout. The Human Resources Department will work with the vendor to continue the communication campaign.

**27. When will enrollment meetings be scheduled?**

Location meetings will be scheduled and communicated so that all eligible employees will have access to attend a meeting. One on one appointments may also be scheduled

with the new vendor. The new vendor will also provide financial literacy information to you upon request.

**28. When will we have contact with the new vendor if we have questions?**

Once enrollment meetings are scheduled, all eligible lay employees will have access to contact the new vendor. More information will be provided once enrollment meetings are underway.

**29. Where should I direct my questions and concerns about the change to the lay employees' retirement benefits?**

The Diocese created an email address to gather your questions and share concerns or suggestions throughout this process that will inform the updates to the FAQs and future communications.

The email address is [layretirement@dsj.org](mailto:layretirement@dsj.org)