From: Katha Kissman
Sent: Wednesday, August 01, 2018 3:50 PM
To: 'Marjorie Raines'; 'Michael O'Reilly'
Cc: Debbie Dutton
Subject: HBOIF 401K

Dear Marjorie & Mike,

I am writing to you both about process, not about decision-making although this may end up being a governance decision.

As you are aware, we have been exploring a move of our 401K from Paychex ever since the Top Heavy incident. We have met twice with the local representative of Morgan Stanley Wealth Management at the recommendation of Jeff Pickering, President of the Indian River Community Foundation, and Bill Stewart. The value to using Morgan Stanley (Trent Leyda and Mike Kanner) is that they work with local nonprofits, have a strong relationship with our external accountants Kmetz, Elwell, and we would get personalized service for the Foundation as well as employees, something we sorely lack with Paychex. In addition, the Fidelity Funds that Paychex forces us to use currently have high fees and have not performed well against benchmarks.

The first 4 documents attached are related to our current 401K plan.
The last 3 documents attached are related to Morgan Stanley's proposal.

We are not recommending a plan change, but rather a custodian change. Doing so is relatively easy but may take 6-8 weeks from actual start to finish and may require a $2,500 surrender fee to Paychex. We do have a forfeiture balance of $1,666.50, so depending on when we can start the process, we may be able to use some of this against any surrender fee. Currently we are using this balance against current Paychex fees.

(At some point in the future there may be some advantage to investigating a plan change to eliminate Top Heavy Testing by going to a Safe Harbor 401K but that would require a minimum 4% match – this would definitely need to be a Finance Committee review/recommendation to the Board. Currently our 401K plan includes the up to 3% dollar for dollar employer match based on employee voluntary contributions through payroll deduction. This was already established when I went fulltime in July 2014.

Per our HBOIF Handbook:

> **401(k) Savings Plan**
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> HBOIF has established a 401(k) plan to provide employees the potential for future financial security for retirement. You are immediately eligible for participation in the plan upon employment.
>
> The 401(k) savings plan allows you to elect how much salary you want to contribute so you can tailor your own retirement package to meet your individual needs. Because your contribution to a 401(k) plan is automatically deducted from your pay before federal and state tax withholdings are calculated, you save

tax dollars now by having your current taxable amount reduced. While the amounts deducted generally will be taxed when they are finally distributed, favorable tax rules typically apply to 401(k) distributions. Complete details of the 401(k) plan are described in the Summary Plan Description provided to eligible employees.

Per our 401K Plan, we have an employer match of up to 3%.

Per our Financial Policies and Procedures Manual:

7. OPENING/CLOSING BANK ACCOUNTS

Policy: Checking, savings, and other accounts at financial institutions are opened and closed only at the approval of the Finance Committee.

Procedure: The President & CEO will bring the need for such openings or closings to the attention of the Finance Committee, to approve on behalf of the Finance Committee any account agreements and terminated/amended/changed/revised signatories on the accounts per corporate resolution. Signatories are revised when there is a change in office or the President & CEO position on all existing accounts.

I am not sure making a custodian change rises to a governance level and what kind of approvals (if any) need to come from the Finance Committee or the Board for us to change custodians. Or perhaps just a reporting to the Finance Committee. There may be the up to $2,500 cost which has budget implications. We do have the August 17 Finance Committee meeting coming up.

We are ready to make a change depending on your thoughts about approval process. Again, timing is a bit of an issue; to do this, it will take 6-8 weeks and should be accomplished by calendar year end if we do it. If and when we have a go, Mike Kanner from Morgan Stanley recommends the following steps:

1. HBOIF and each of us as employees would need to first establish accounts at Morgan Stanley. We would not have to fund these, just set them up.

2. We have 2 former employees in the plan (Colleen Brennan and Mary Leach). Mike Kanner would contact them to encourage them to roll out of the plan; he can offer an IRA with Morgan Stanley or help in moving them to an already established 401K or 403B that they personally may have.

3. We would need to hire a Third Party Administration; Mike is recommending Aim Point Pension. They would do both our 5500 filings as well as our Top Heavy Testing. They will know based on our prior year 5500s and current year census that we are in compliance and we should not have the same issue we had with Paychex. Paychex uses their own TPA and as previously reported does not seem to have the capacity to stop an automatic trigger regarding compliance.

4. We would inform Paychex of our intention to transfer the 401K plan to another company by letter.

5. We would need to obtain a Surety Bond. Mike will be contacting our insurance company (Vero Insurance) to see if they can provide. If not, they have another source.

In any event, since you both have critical expertise in investments, we would welcome any and all thoughts, comments you may have.

For now, you should both respond to me directly and we can go from there about our requirements (or not) under Sunshine. Thank you in advance for your review.

Katha

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