

Office of the
Internal Auditor

ENGAGEMENT REPORT

June 2024

Retirement Benefits Engagement



Table of Contents:

Page



Executive Summary

Background	1 - 2
Risk Assessment & Root Cause Analysis	2
Mitigating Activities and Controls Implemented	2 - 3
Recommendations	3
Conclusion	3



Appendix

Distribution	4
Engagement Performed by	4



Executive Summary

Background

Citizens Retirement Plan is administered by Empower Retirement (Empower). Within Citizens Human Resources, the Total Rewards department is responsible for managing the relationship with Empower; it provides Empower with funds to be invested on behalf of plan participants along with instructions for investing those funds. In addition to using Empower as the retirement account administrator, Citizens also uses SageView as the company's retirement plan advisory firm. SageView provides employees with investment counseling and retirement readiness advice.

As part of the Citizens Retirement Plan, employees can make tax-deferred contributions to their Empower-administered retirement accounts. Plan participants direct which investment products their funds invest in from a selection of 28 different products. One of those products is the MassMutual SAGIC Diversified II (SAGIC) fund which is managed by Empower. The product provides a stated fixed rate of return, generated from the performance of a short-term bond portfolio, that insulates the account from daily fluctuations in the bond market.

On July 7, 2023, the Total Rewards department became aware of a crediting rate error for the SAGIC product, which led to plan participants not receiving promised investment returns for the months of May and June of 2023. An employee of Citizens brought this error to Total Rewards' attention. On the same day, Total Rewards reported this error to Empower. There was initially disagreement between the two parties regarding the extent of the error, but by late August, it was agreed that impacted plan participants, 860 of them, were owed \$54,428.25, and those credits were issued.

In addition to the above crediting rate error associated with the SAGIC investment, Total Rewards also has experienced several other events with Empower, including:

- As Empower issued the credits mentioned above, Citizens noticed that Empower had issued excess credit over what was owed. Empower investigated the issue and reversed approximately \$25,000 in excess credits among over 800 participant accounts, sending notification letters to each affected participant in November 2023.
- An incorrectly managed account fee had been assessed since Q3-2022. A total of 27 participants were overcharged, and they were credited back \$1,562.67. Empower communicated this issue to participants in November 2023.
- Empower's November 2023 communications contained address errors. Citizens notified Empower that several employees (16) received a notice containing a letter addressed to another person. However, only the name and home address were disclosed. Empower did not consider this a privacy breach since that information is publicly available.
- Citizens held discussions with Empower regarding the disclosure of management fees for the SAGIC product and whether they were contractually authorized. There



Executive Summary

was also discussion regarding whether the fees have been properly disclosed to Citizens' plan participants over time. After months of deliberation, Empower agreed to disclose the fees in the SAGIC prospectus.

Objectives and Scope

The objective of this engagement was to evaluate the incident resulting in the incorrect underpayment of SAGIC account returns and to evaluate the actions taken by management and Empower to assess the associated risk of continued management of CPIC employee retirement funds. This included:

- Assessment of the initial complaint/issue, including interviews with key personnel within the company
- Review of Empower procedures, disclosures, attestation reports & contract SLAs
- Root cause analysis
- Review of mitigating actions taken and recommendation of independent management activities

Conclusion

The root cause of the crediting rate error was that Empower failed to execute a manual process for adjusting the specific rate due to Citizens' plan participants. By failing to manually adjust the rate, Citizens' plan participants were credited the default SAGIC rate of one percent (1%) instead of the guaranteed rate (~4%). Furthermore, the Total Rewards team within Citizens did not have a mechanism in place to verify that the rate of return credited by Empower for the SAGIC product was correct. Other issues with Empower can be attributed to an Account Manager at the company who was not providing customer service to the level that Total Rewards desired.

Given this context and background, Internal Audit met with management from Total Rewards, Vendor Management and Purchasing (VMAP), Corporate Legal, and the retirement plan advisor, SageView, and reviewed the extent of the Total Rewards department's oversight over Empower's practices ensuring that all actions needed, to correct these errors, were taken, and further assessed the risks that Citizens face because of these issues with Empower. Following the completion of our review, Internal Audit noted the following mitigating actions:

- Citizens has proposed two (2) new Service Level Standards (SLS) to Empower which obligate Empower to credit investors with the correct investment returns for the SAGIC product and to charge the accurate Managed Account fees each quarter or face financial consequences – i.e. issuing service credits to Citizens.
- Citizens requested and received a new Account Manager and account management team at Empower who will be focused on ensuring that operational errors, such as



Executive Summary

mailing issues, will not reoccur. The new Empower team appears to be in sync with Citizens' concerns.

- Empower has agreed to disclose all management fees affiliated with the SAGIC product within the prospectus documents (Fact Sheet) that describe the investment product and its structure. Citizens is in discussions with Empower to also have the disclosure of the management fees added to the quarterly participant statements.

The following opportunity for improvement was noted and Internal Audit recommends that the Total Rewards team within Citizens adopt a quarterly review procedure to independently recalculate investment returns for a sample of SAGIC participants to check for reasonableness. This will prevent scenarios in the future in which an employee participant has to find the issue themselves and bring it to Total Rewards' attention. Additionally, this will allow Citizens to hold Empower responsible for any errors on time. After discussions with Total Rewards, management has agreed to design and implement the above control.

Internal Audit has deemed that continuing the current mitigating activities and adopting the recommendation above will sufficiently reduce risks associated with using Empower as Citizens' retirement plan administrator.



Distribution

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Jeremy Pope, Chief Administrative Officer
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Audit Committee:

Jamie Shelton, Citizens Audit Committee Chair
Carlos Beruff, Citizens Audit Committee Member and Chairman of the Board
Scott Thomas, Citizens Audit Committee Member

Following Audit Committee Distribution:

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The Honorable Jimmy Patronis, Chief Financial Officer
The Honorable Ashley Moody, Attorney General
The Honorable Wilton Simpson, Commissioner of Agriculture
The Honorable Kathleen Passidomo, President of the Senate
The Honorable Paul Renner, Speaker of the House of Representatives

The External Auditor

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