

IN THE CHANCERY COURT OF JACKSON COUNTY, MISSISSIPPI

IN RE: Singing River Health System Employees' Retirement Plan and Trust
Almond, et al. v. Singing River Health System, et al.; Cause No. 2014-2653
Thompson, et al. v. Singing River Health System, et al.; Cause No. 2014-2695
Bosarge, et al. v. Singing River Health System, et al.; Cause No. 2014-2729
Aguillar, et al. v. Singing River Health System, et al.; Cause No. 2014-2753
Drury, et al. v. Singing River Health System, et al.; Cause No. 2015-0001
Broun, et al. v. Singing River Health System, et al.; Cause No. 2015-0027
Eiland, et al. v. Singing River Health System, et al.; Cause No. 2015-0030
Lay, et al. v. Singing River Health System, et al.; Cause No. 2015-0060

REPORT BY TRACI M. CHRISTIAN

Traci M. Christian files this Report with the Court and would show as follows:

1.

Pursuant to my appointment as Special Fiduciary of the Singing River Health System Employees' Retirement Plan and Trust (the "Plan"), the Court has requested a monthly report. I bring to the Court's attention the following items for the month of March, 2018.

2.

A new proposed Investment Policy Statement is attached for the Court's review.

3.

In an effort to reduce plan administrative costs and thus preserve the fund for present and future beneficiaries, I make the following recommendations for the Court's review:

A. Due to ongoing litigation, I believe it is in all parties' best interests to transition services from Transamerica. Transamerica is currently providing the following services:

They are the custodian of about \$20M in Plan assets. These assets are invested in a bond fund: The Metropolitan West Total Return Bond Fund. From this account, Transamerica pays all plan benefits and administrative expenses upon proper authorization. They provide administrative services to the Plan that will be needed ongoing: These include the processing of participant benefit payments, direct participant support services, recordkeeping, state and federal tax withholding and IRS forms 1099R and 945, regular retiree benefit and death audits. Transamerica also provides actuarial services to the Plan and to the Hospital including annual actuarial valuations and periodic benefit studies.

Gathering Plan data and information from Transamerica has proved to be a challenge over the past few months.

I propose that the services currently provided by Transamerica be provided by two separate firms. One firm would provide custodial and the other would provide actuarial and administrative services.

I propose that the actuarial and administrative services of the Plan be provided by McCloud & Associates, Inc. of Liberty, Missouri (M&A). As the court is aware, I am one of three owners of M&A. I propose this change both from a cost and service standpoint.

By moving the services to M&A, I would have direct oversight of the actuarial and administrative services for the Plan. This will save the Plan significantly in fees, particularly in the next few years.

By using my own firm for actuarial work, I will have the ability to run future plan design and cost studies much more efficiently and cost effectively. This will be important as benefit adjustments become necessary in the near and possibly longer term. As special fiduciary, I want to be certain that adjustments to benefits are made equitably and no more than is absolutely necessary. This will require many actuarial studies to be performed. By doing this work “in house” I will have direct access to the data and the software used and can run multiple scenarios myself to determine the best course(s) of action, revising if needed in real time as opposed to going back to an outside actuarial firm each time and paying for each study whether it proves helpful or not.

I will have the benefit of assistance and review from the three other credentialed actuaries at my firm as well as another independent actuarial firm with whom I have worked in the past should an independent review be needed.

By using my firm for the administrative work, I hope to cut plan costs significantly. As shown below, my smaller firm has lower overhead costs than the larger firms and we are simply able to pass that savings along to our clients. I would like the SRHS Retirement Plan to benefit from this savings.

- B. I propose that Plan assets be consolidated with one custodian who would also serve as a fund manager of the equity and bond portfolios.

The Plan’s remaining assets aside from Transamerica of approximately \$100M are currently in the custody and management of Trustmark and various individual investment managers.

I propose a “Request for Proposals” be issued for custodial and management services with invitations sent to the three below named firms but open to any interested provider.

I have three potential custody/management firms in mind: Wells Fargo, Great Plains Trust, and FCI Advisers/Midwest Trust. My firm has worked with all three of these firms for many years and I am familiar with their services and have faith that they can provide an excellent level of similar service at a reduced cost to the Plan. By consolidating assets, we would be eliminating Trustmark as a service provider.

- C. I propose a “Request for Proposals” be issued for audit services for the Plan. The Plan utilizes the services of the firm of Dixon Hughes for the Plan audit. I believe that the current audit fees are higher than necessary for a Plan audit of this size and scope. I would review all proposals and make a recommendation to the court based on the results of that process.
- D. Below is an estimate of the potential savings that the Plan could realize:

Approximate Current Annual Fees for Custodial, Administrative and Actuarial and Audit services:

Transamerica	
Annual Administration and custody of the bond fund	\$230,000
Actuarial – Standard	36,000
Actuarial – Additional services	10,000
Potential annual fees for future actuarial studies	\$50,000 - 100,000
Trustmark	
Custody of the remaining plan assets	66,000
Dixon Hughes - Audit Services	76,000

Approximate Annual Fees for Proposed Custodial, Administrative and Actuarial services:

McCloud & Associates	
Annual Administration	\$100,000
Actuarial – Standard	25,000
Actuarial – Additional services	5,000
Potential annual fees for future actuarial studies	\$25,000 - 50,000

New Custodian/Manager

Custody of the all plan assets and administration of benefit payments and expenses	0*
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New Auditor - Audit Services 35,000

Potential Annual Savings in excess of \$300,000 annually.

* The new Custodian/Manager would presumably provide the custody services as part of their overall management fee. I expect that the overall investment management fee will also be reduced as a result of the consolidation.

My goal is to eliminate at least \$500,000 in overall fees charged to the Plan annually. The proposed changes outlined above could significantly facilitate this goal.

As has been previously stated and noted by the Court: Even with the proposed settlement, there will not be sufficient funds to pay 100% of the benefits currently promised to all Plan participants. Benefits must be reduced. If changes are not made, even with the proposed settlement, the Plan runs out of money in the year 2028.

In order to preserve the fund for the benefit of both present and future beneficiaries, it is necessary to reduce Plan benefits. I submit the following suggestions for review and discussion:

- A. Amend the Plan to make the Cost of Living Adjustment feature of the Plan discretionary and payable only upon the approval of the Special Fiduciary and the court. This change is certain to become necessary regardless of the outcome of the litigation.
- B(1) Amend the Plan to reduce all benefits by 25%; or
- B(2) Amend the Plan to reduce all benefits by 15% to 35% depending on salary level at the time of retirement or as of the Plan freeze. For example, participants making less than \$30,000 per year would only have a 15% reduction in benefits. Those making between \$30,000 and \$90,000 would have a 20% reduction. Those between \$90,000 and \$150,000 would have a 25% reduction, those between \$150,000 and \$250,000 would have a 30% reduction and the highest paid participants making over \$250,000 would have a 35% reduction in benefits.

For those in pay status, we could do a step-down approach where we reduce monthly payments by 10% per month so as to allow participants time to plan and adjust their budgets. By reducing accrued benefits for those participants not in pay status, we could keep the other provisions of the Plan intact – allowing for a continuation of the subsidized early retirement provisions and keeping the retirement age at 65.

I have prepared an estimated cash flow projections assuming the settlement is approved and some form of one of the above two changes are made. It is possible that these changes may be all that is needed to sustain the Plan.

In addition, I submit the following suggestions for review and discussion:

- C. Amend the Plan to allow the Special Fiduciary, with the approval of the Court, the option to open “Return of Contribution Window”(s) to active Plan participants (those still working for the hospital.) This would allow, under the discretion of the Special Fiduciary and the Court, active participants to elect to receive their Employee contributions with interest while still employed in lieu of an annuity benefit from the Plan. Currently a Return of Contributions is payable to Non-vested Terminated Participants (they forfeit their Plan benefit if they are not vested) and is optional for Vested Terminated Participants. I propose that this same option be potentially offered to actively employed participants as well. While participants who voluntarily elect this option will ultimately receive much lower benefits from the Plan, they will do so at their own hand and in exchange have the advantage of full control of their money from this Plan and full knowledge of the benefits they will receive - and not receive.
- D. I propose that a policy be adopted by the Special Fiduciary and the Court that the Plan maintain a corridor of a 90% to 110% funding level. That is, as of each valuation date, if the Plan is deemed to be less than 90% funded or more than 110% funded on a projected basis, that the Special Fiduciary will make a recommendation to increase or decrease benefits accordingly so as to return the Plan to a 100% projected funded level.

5.

It is very important to note that the cost estimates that I have prepared for this report are for discussion purposes only. They are based on estimated data and have not been peer reviewed or reviewed by any other party. The actual future of the Plan and the final benefit provisions necessary to sustain the fund cannot be known precisely. Regardless of the decisions of the court regarding changes to the Plan, it will be of the utmost importance to have fully peer-reviewed studies and valuations performed for the Plan, to continue to monitor the asset and demographic experience of the Plan and for the Special Fiduciary to continue to make recommendations accordingly to the Court.

I believe the above measures outlined in this report will help to insure the long-term health of the Plan for all affected participants.

THIS, the 27st day of March, 2018

Respectfully submitted,

TRACI M. CHRISTIAN