

MERS RETIREMENT BOARD
PLAN CLOSURES, FREEZES AND CONVERSIONS
POLICY AND PROCEDURE

Adopted February 17, 2022; as amended June 23, 2022

Section 12 of the MERS Plan Document provides the circumstances under which a participating municipality or court may close or freeze one or more employer divisions of its MERS' Defined Benefit, Defined Contribution and Hybrid Plans (each a "Plan" or collectively, the "Plans"). Intended to supplement the MERS Plan Document and incorporated by reference therein, this Plan Closures, Freezes and Conversions Policy and Procedure ("Policy") sets forth the administrative requirements for the closures, freezes and conversions options available pursuant to Section 12 of the Plan, and provides the procedures for closing and freezing Plans and converting benefits from one Plan to another Plan. Full compliance with this Policy is mandatory for closure, freeze or conversion of benefits in any of the Plans, unless otherwise authorized by the full Retirement Board or the CEO in writing. In the case of any conflict between this Policy and the MERS Plan Document, the MERS Plan Document controls.

All requirements in the Policy are at all times subject to the requirements of the MERS Actuarial Policy. Nothing in this Policy is intended or shall be construed to conflict with the requirements of the MERS Actuarial Policy or any more restrictive requirement imposed by law.

This Policy may be amended by the MERS Retirement Board.

DEFINITIONS

Unless otherwise expressly defined in this Policy, all terms shall have the meaning as defined in the MERS Plan Document, as may be amended.

"Participating municipality" shall include a participating municipality or participating court.

"Member" shall include member and participant.

I. Close a Plan or Employee Division(s)

Summary: Under this Section, the governing body of a participating municipality may vote to close a Plan or one or more employee divisions of a Plan. This process will be followed for the actions referenced in subsections (a), (c) and (e) of Section 12(1) of the MERS Plan Document.

Phase One – Notice of Intent to Close Employee Division(s)/Plan

1. The participating municipality shall notify MERS of its intention to close an employee division(s)/Plan, by providing the following information:

- The employee division(s)/Plan proposed to be closed;
- The proposed date of closure, which must be the first day of a calendar month not sooner than 30 days after the adoption by the governing body of applicable documentation as described in Phase Two, below, which minimum period MERS may modify at its discretion;
- The employee division(s)/plan to which new hires/rehires/transferred employees who would have otherwise been members of the closed employee division or Plan will be enrolled, if any; and
- Whether the participating municipality wishes to offer at the time of closure a one-time irrevocable conversion option and/or optional freeze to active members to the employee division/plan to which new hires/rehires/transferred employees who would have otherwise been members of the closed employee division or Plan will be enrolled, if any (subject to and as permissible under the terms of the Plan).

Any employee option offered must be consistent with the requirements of the Internal Revenue Code, which prohibits providing employees a choice, after the later of (i) the employee's date of hire, or (ii) the date on which the employee was first eligible for any plan of the employer, between receiving immediate compensation and deferred compensation, including but not limited to a choice between different employee contribution structures.

2. Upon notice by the participating municipality of the intent to close one or more Defined Benefit or Hybrid employee division(s)/Plan and, if applicable, receipt of the valuation request form(s) and fee, MERS shall initiate such actuarial studies required under the terms of the MERS Actuarial Policy. Upon completion of any required actuarial studies, MERS will provide these to the participating municipality as well as advising the participating municipality about the changed basis upon which employer contribution invoices are prepared (from a percent of payroll to a flat dollar amount), and that any existing employer caps will no longer be administered. MERS will notify the participating employer about available conversion options or optional freeze provisions, if indicated.
3. MERS will also provide a participating municipality that has indicated an interest in offering either a conversion option or an optional freeze:
 - a. Which conversion option or optional freeze may be offered, and any additional information MERS may need to make that determination; and
 - b. Procedures and timelines regarding conversion options or optional freeze notices.

Phase Two – Vote of the Governing Body

After receipt from MERS of the information described in Phase One and presentation of such actuarial studies required by the Actuarial Policy, upon the adoption by the participating municipality's governing body of the following, as applicable:

- an Adoption Agreement, in a form prescribed by MERS, and/or
- if the employer is adopting a new MERS Plan for the first time, a Resolution or Administrative Order, and/or
- if needed, an Administrative Services Agreement.

the participating municipality shall timely provide the applicable documentation to MERS, together with an effective date consistent with the timeline provided herein, and all other required information.

Phase Three – Closure Implementation

1. On and after the closure effective date, no new hires, rehires or transfers will be enrolled by MERS into the closed employee division(s)/Plan, unless otherwise provided by an alternative transfer arrangement between MERS and the participating municipality.
2. Any conversion option or optional freeze options that the participating municipality has elected to offer pursuant to the terms of the Plan to current members shall be governed by the terms of Section III, below.
3. For Defined Benefit or Hybrid members who were given the option and elected to freeze accrual under the now closed division/Plan, no changes shall be made to the determined Final Average Compensation of current active members based on wages paid for services performed after the effective date of the freeze.
4. All actuarial matters relating to the closed employee division(s)/Plan shall be determined under the terms of the MERS Actuarial Policy, as amended.

II. Freeze a Plan or Employee Division(s)

Summary: Under this Section, the governing body of a participating municipality may vote to freeze a Plan (which terminates ongoing accruals for current members and closes the Plan to any new entrants) or one or more employee division(s) of a Plan. This process will be followed for the actions referenced in subsections (b), (d) and (f) of Section 12 of the MERS Plan Document.

Phase One – Notification to MERS of Intent to Freeze Employee Division(s)/Plan

1. The participating municipality shall notify MERS of its intention to freeze an employee division(s)/Plan, by providing the following information to MERS:
 - The employee division(s)/Plan proposed to be frozen;
 - The proposed date of freeze, which must be the first day of a calendar month not sooner than 30 days after the adoption by the governing body of the applicable

documentation as described in Phase Two, below, which minimum period MERS may modify at its discretion;

- The employee division(s)/plan to which new hires/rehires/transferred employees who would have otherwise been members of the frozen employee division or Plan will be enrolled, if any; and
 - Whether the participating municipality wishes to offer at the time of freeze a one-time irrevocable conversion option to active members to the employee division/plan to which their current employee division(s)/Plan is freezing (subject to and as permissible under the terms of the Plan).
2. Upon notice by the participating municipality of the intent to freeze a Defined Benefit or Hybrid division(s)/Plan, MERS shall initiate such actuarial studies required under the terms of the MERS Actuarial Policy. Upon completion of any required actuarial studies, MERS will provide these to the participating municipality, and advise the participating municipality regarding the changed basis upon which employer contribution invoices are prepared (from a percent of payroll to a flat dollar amount), and that any existing employer caps will no longer be administered. MERS will notify the participating municipality about available conversion options, if indicated. If the active members will be enrolled in the Defined Contribution or Hybrid Plan of the participating municipality, then the active members shall continue to be credited with vesting and eligibility service, but no future service credit may be granted under Section 18 or 19 of the Plan with respect to the frozen Defined Benefit Plan or Defined Benefit Component of the Hybrid Plan. If the active members will be enrolled in the MERS 475(b) Program, a non-MERS plan or in no plan of the participating municipality, then the accrued benefits of all such active members shall be 100% vested as of the freeze effective date, and no future service credit may be granted under Section 18 or 19 of the Plan with respect to the frozen Defined Benefit Plan or Defined Benefit Component of the Hybrid Plan.
3. Upon notice by the participating municipality of the intent to freeze a Defined Contribution employee division(s)/Plan, MERS shall notify the participating municipality of the following:
- If the active members will be enrolled in the MERS 475(b) Program, a non-MERS plan or not be enrolled in any plan of the participating municipality, then the accounts of all such active members shall be 100% vested as of the freeze effective date. If the active members will be enrolled in the Defined Benefit or Hybrid Plan of the participating municipality, then the Defined Contribution accounts of such active members shall continue to be credited with vesting service.
 - The frozen employee division/Plan will continue to accept eligible rollovers distributions and distributions from eligible rollover assets to the members' accounts and, to the extent permitted by the employer in the Adoption Agreement, post-tax employee contributions.

4. MERS will also provide a participating municipality that has indicated an interest in offering a conversion option:
 - Which conversion options may be offered, and any additional information MERS may need to make that determination; and
 - Procedures and timelines regarding offers of conversion notices.

Phase Two – Vote of the Governing Body

After receipt from MERS of the information described in Phase One and presentation of such actuarial studies required by the Actuarial Policy, upon the adoption by the participating municipality's governing body of the following, as applicable, by simple majority vote of the members of the governing body (unless the Plan/employee division is being frozen to the MERS 457(b) Program, a non-MERS plan or no plan, in which case, a two-thirds majority vote of the member of the governing body):

- an Adoption Agreement, and/or
- if the employer is adopting a new MERS Plan for the first time, a Resolution or Administrative Order,

the participating municipality shall timely provide the applicable documentation to MERS, together with an effective date consistent with the timeline provided herein, and all other required information.

Phase Three – Freeze Implementation

On and after the freeze effective date:

1. No new hires, rehires or transfers will be enrolled by MERS into the frozen employee division(s)/Plan, unless otherwise provided under the terms of an alternative transfer agreement entered into between MERS and the participating municipality.
2. Members in the frozen employee division/Plan will accrue no further benefit service under the employee division/Plan. Members who are enrolled in a MERS Defined Contribution, Defined Benefit or Hybrid division/Plan of the participating municipality shall be credited with continuous service credit solely for the purposes of satisfying vesting and eligibility requirements.
3. Members of the frozen employee division/Plan who are enrolled in the MERS 457(b) Program, a non-MERS plan or no plan of the participating municipality will be immediately 100% vested. Upon the cessation of benefit accrual under any frozen Plan, no further service for the participating municipality performed after a freeze shall be recognized for purposes of combining service under Section 17, and no service may be

granted under Section 18 or 19 of the Plan with respect to a frozen Defined Benefit or Defined Benefit Component of the Hybrid Plan.

4. With respect to a freeze of a Defined Benefit or Hybrid Plan/employee division(s), no changes shall be made to the determined Final Average Compensation of current active members based on wages paid for services performed after the effective date of the freeze after the effective date of the freeze.
5. Within twenty (20) business days of the freeze effective date, the participating municipality must provide a written notice to all current active members of the frozen employee division(s)/Plan regarding the impacts of paragraph 2, above.
6. Any conversion option that the participating municipality has elected to offer pursuant to the terms of the Plan to current members shall be governed by the terms of Section III, below.
7. All actuarial matters relating to the frozen employee division(s)/Plan shall be determined under the terms of the MERS Actuarial Policy, as amended.

III. Conversion Option and Optional Freeze

Summary: Under this Section, the governing body of a participating municipality, in conjunction with the closures and freezes of Plan/employee division(s), may allow conversion options or optional freezes to the plan, if any, covering new hires, rehires and transfers after to the close/freeze date. The procedures and limitations below apply to all conversion options and optional freezes described in Section 12(1) of the MERS Plan Document.

A. Optional Freeze upon Closure of Defined Benefit Plan, Defined Contribution Plan or Hybrid Plan Employee Division(s)

1. In the Resolution or Administrative Order closing one or more employee division(s) of or the full Defined Benefit Plan, Defined Contribution Plan or Hybrid Plan, the participating municipality may at that time provide an opportunity for each current active member of the closing employee division(s)/Plan to freeze his/her benefit in the closing employee division(s)/Plan and thereafter commence coverage in the division/plan to which the closing division/Plan is closing, if and to the extent permitted by Section 12 of the MERS Plan Document, if each of the following conditions are met:
 - a. On the effective date of the closure, the current active members affected are members of the System who are in the closed employee division(s)/Plan.
 - b. In the Resolution or Administrative Order closing the employee division(s)/Plan, the participating municipality has elected to enroll newly hired, rehired and transferred employees who would have otherwise been members of the closed employee division(s)/Plan into one of the following:

- i. The Defined Benefit Plan;
 - ii. The Defined Contribution Plan;
 - iii. The Hybrid Plan.
 - iv. The MERS 457(b) Program; or
 - v. A non-MERS plan.
 - c. On the date of the Resolution or Administrative Order closing an employee division(s)/Plan of the Defined Benefit or Hybrid Plan, both the full Plan and the affected division(s) have a funding level in compliance with MERS' Actuarial Policy. The participating municipality may make additional contributions to the System or reallocate assets among Defined Benefit Plan or Defined Benefit Component of the Hybrid Plan employee divisions, to the extent permitted by the Plan and the Actuarial Policy, in order to meet the conditions of this subsection.
 - d. If any, the mandatory employee contribution rate in the closing employee division(s)/Plan is identical to the mandatory employee contribution rate in the plan to which the closing division(s)/Plan is closing.
 - e. The participating municipality is otherwise in compliance with this Policy and the MERS' Actuarial Policy.
2. Where each of the conditions of subsection (1) are satisfied, each current active member of the closing employee division(s)/Plan shall have one opportunity irrevocably to freeze his/her benefit in the closing employee division(s)/Plan and thereafter commence coverage under the division/plan to which the closing division/Plan is closing. The current active member shall make the election under this subsection in writing based on procedures established by MERS. Such elections must be made:
 - a. No earlier than the end of the third month following the month in which the resolution/administrative order/agreement is received by MERS; and
 - b. No later than the first day of the first calendar month that is at least six months after MERS receipt of the resolution/administrative order/agreement.

If the current active member is married at the time of election, the election is not effective unless the current active member's spouse consents in a signed writing to the election, except that this requirement may be waived if it is determined by the System that the written signed consent of the current active member's spouse cannot be obtained because of extenuating circumstances.

3. The effect of a current active member making a written election under subsection (2) shall be the following:
 - a. The current active member shall be covered by the closing division/Plan until 12:01 a.m. on the closing effective date, at which time, the current active member's benefit under the closing division/Plan shall be frozen.

- b. The current active member shall become covered by the plan to which the closing employee division(s)/Plan is closing effective 12:01 a.m. on the same day on which his/her coverage under the previous benefit division/Plan has frozen, as described above.
- c. Upon a member's electing an optional freeze of a Defined Benefit or Hybrid Plan benefit, no changes shall be made to the determined Final Average Compensation of such member based on wages paid for services performed after the effective date of the freeze after the effective date of their optional freeze.
- d. If the plan to which the closing division(s)/Plan is closing is the MERS Defined Benefit, Defined Contribution or Hybrid Plan, the frozen benefit of the current active member shall continue to be credited with vesting service for purposes of determining vesting and eligibility status as it is earned under the division/Plan in which the current active member has commenced participation.

B. Conversion Option for a Closed/Frozen Employee Division(s) of the Defined Benefit Plan, Defined Contribution Plan or Hybrid Plan

- 1. Either in the Resolution or Administrative Order closing or freezing one or more employee division(s) of or the full Defined Benefit Plan, Defined Contribution Plan or Hybrid Plan, or in an agreement entered into with MERS after such closure/freeze, the participating municipality may provide an opportunity for each current active member of a closed/frozen employee division(s)/Plan to convert their benefit under the closed/frozen employee division(s)/Plan to the plan to which the closed/frozen employee division(s)/Plan closed/froze, and thereafter commence coverage under the plan to which the closed/frozen employee division/Plan is closed/frozen (if and to the extent permitted by Section 12 of the MERS Plan Document), if each of the following conditions are met:
 - a. On the Conversion Date, the current active members affected are members of the System in the closed/frozen employee division(s)/Plan.
 - b. In the Resolution or Administrative Order closing/freezing the employee division(s)/Plan, the participating municipality has elected to enroll newly hired, rehired and transferred employees who would have otherwise been members of the closed/frozen employee division(s)/Plan in one of the following:
 - i. The Defined Contribution Plan;
 - ii. The Hybrid Plan; or
 - iii. A non-MERS retirement plan that is a qualified defined contribution money purchase plan.
 - c. In either the Resolution or Administrative Order closing/freezing the employee division(s)/Plan or an agreement entered into with MERS after such closure/freeze, the participating municipality specifies a Conversion Date, which shall be the first day of

the first calendar month that is at least three (3) months after the effective date of the closure/freeze of the employee division(s)/Plan.

- d. The mandatory employee contribution rate in the closed/frozen employee division(s)/Plan, if any, is the same as the mandatory employee contribution rate in the plan to which the closed/frozen employee division(s)/Plan is closed/froze.
- e. If the closed/frozen Plan/division is in the Defined Benefit or Hybrid Plan, the Resolution or Administrative Order or other agreement with MERS shall specify the conversion level percentage, which shall be:
 - i. Equal to the closed/frozen employee division's actuarially determined funded level (which must be at least 1% but no more than 100%), or
 - ii. A percentage of the division's actuarially determined funded level (which must be at least the funded percentage of the division, but no more than 100%).

If the closed/frozen division's funded level is less than the percentage selected by the participating employer, then the participating municipality is required to contribute to the closed/frozen division, within 90 days of the Conversion Date, on behalf of any and all converting members, the shortfall, if any, between the closing/freezing division's funded level as of the Conversion Date and that which is required to be transferred to the plan to which the closing/freezing division/Plan is closing/freezing.

- f. The participating municipality has not offered a conversion option to current active members with respect to this closed/frozen employee division/Plan.
 - g. The participating municipality shall otherwise comply with this Policy and the MERS' Actuarial Policy.
2. Where the conditions of subsection (1) are satisfied, each current active member of the closed/frozen division/Plan shall have the opportunity irrevocably to convert his/her benefit from that accrued under the closed/frozen division/Plan to a benefit under the employee division/plan to which the closed/frozen division/plan has been closed/froze, and thereafter continue participation as a member of that employee division/plan. The current active member shall make the election under this subsection in writing, based on procedures established by MERS. Such elections must be made:
- a. No earlier than the end of the third month following the month in which the resolution/administrative order/agreement is received by MERS; and
 - b. No later than the first day of the first calendar month that is at least six months after MERS receipt of the resolution/administrative order/agreement.

If the current active member is married at the time of election, the election is not effective unless the election is consented to in writing by the current active member's spouse, except that this requirement may be waived if it is determined by the System that the written signed

consent of the current active member's spouse cannot be obtained because of extenuating circumstances.

If the current active member has been divorced, the member shall provide a full copy of the Judgment of Divorce(s) to MERS for review. If the Judgment indicates that a share of the member's benefit has been assigned to an alternate payee under an Eligible Domestic Relations Order, then MERS shall determine whether the conversion option is available to the member. During that review period, processing will be delayed. If the conversion option cannot be exercised by the member based on this review, the member's participation in the closed/frozen division/Plan will continue as before.

3. The effect of a current active member making a written election under subsection (2) shall be the following:
 - a. The current active member shall be covered by the previous benefit plan until 12:01 a.m. on the Conversion Date.
 - b. The current active member shall become covered by the plan in which newly hired, rehired and transferred employees who would have otherwise been members of the closed/frozen employee division(s)/Plan will be enrolled effective 12:01 a.m. on the Conversion Date.
4. For a member who makes the election under subsection (2), the following rules regarding the conversion shall apply, as applicable:
 - a. For current members of the Defined Benefit Plan.
 - i. if closed/frozen to the Defined Contribution Plan or to the non-MERS retirement plan that is a qualified defined contribution money purchase plan, pursuant to procedures established by MERS, the greater of the member's accumulated contributions or the actuarial present value of the accrued benefit associated with the member's coverage under the closed/frozen Defined Benefit Plan/division, after application of the conversion level percentage selected by the participating municipality, shall be transferred from the reserve for employee and employer contributions to the member's credit in the reserve for the Defined Contribution Plan or to the non-MERS retirement plan that is a defined contribution money purchase plan. For purposes of the determination of the actuarial present value for this purpose, the actuarial present value shall be computed as of 12:01 a.m. on the Conversion Date and shall be based on MERS' Actuarial Policy, as amended.
 - ii. If closed/frozen to the Hybrid Plan, the Hybrid Plan Defined Contribution Component shall be the greater of the member's accumulated contributions or the difference between the actuarial present value of the accrued benefit associated with the member's coverage under the closed/frozen Defined Benefit employee division and the actuarial present value of the accrued benefit associated with the member's coverage under the Hybrid Plan Defined Benefit Component, after application to

such excess of the conversion level percentage selected by the participating municipality. For purposes of the determination of the actuarial present value for this purpose, the actuarial present value shall be computed as of 12:01 a.m. on the Conversion Date and shall be based on MERS' Actuarial Policy, as amended.

- b. For current members of the Defined Contribution Plan.
 - i. If closed/frozen to the Hybrid Plan, on the Conversion Date, the member's Defined Contribution Plan accrued benefit account shall be transferred to the Hybrid Plan Defined Contribution Component. No Defined Benefit Component benefit service is credited at the time of conversion. All accrued service is maintained for vesting and eligibility purposes toward both the Defined Benefit and the Defined Contribution Components of the Hybrid Plan.
 - ii. If closed/frozen to a non-MERS retirement plan that is a qualified defined contribution money purchase plan, the transfer amount shall be the fair market value of the member's Defined Contribution Plan accrued benefit account as of the Conversion Date. The vesting schedule applicable to the member's accrued benefit account shall be disregarded.
- c. For current members of the Hybrid Plan: If closed/frozen to the Defined Contribution Plan or to a non-MERS retirement plan that is a qualified defined contribution money purchase plan to which the Hybrid Plan has been closed or frozen, the procedure recited in (a)(i) above shall be used for calculating the present value of the Defined Benefit Component of the Hybrid Plan benefit. The Defined Contribution Component of the Hybrid Plan benefit will be transferred to the Defined Contribution Plan, or the fair market value of the Defined Contribution Component of the Hybrid Plan as of the Conversion Date will be transferred to the non-MERS retirement plan that is a qualified defined contribution money purchase plan to which the Hybrid Plan has been closed or frozen. The vesting schedule applicable to the member's accrued benefit account shall be disregarded.

End Policy