

**State of Vermont Defined Contribution Plan
Investments, Administration and Recordkeeping**

**RFP Questions & Answers
June 12, 2007**

1. *What type of DC plans under 401(a) are these.*
- A. The Plans are qualified defined contribution plans under IRS Section 401(a).
2. *Would it be possible to get the RFP to us in Word format*
- A. Yes. Please make requests to the Single Point of Contact, Donna Holden, at donna.holden@state.vt.us
3. *Can you please provide me the estimated total annual contributions (i.e., employee and employer) for the State of Vermont Defined Contribution Plan and the Vermont Municipal Employees' Retirement System Plan?*
- A. **State of Vermont Defined Contribution Plan**
Estimated Annual Employer Contributions = \$1,685,000 (7% of earnings)
Estimated Annual Employee Contributions = \$690,000 (2.85% of earnings)
- Vermont Municipal Employees' Defined Contribution Plan**
Estimated Annual Employer Contributions = \$575,000 (5% of earnings)
Estimated Annual Employee Contributions = \$575,000 (5% of earnings)
4. *Can you provide me the ticker symbol or complete name of the MSI Small Company Growth B Investment Option currently used in the Municipal Plan?*
- A. The ticker symbol is the MSIF (Morgan Stanley Institutional Funds) Small Company Growth Fund B Class, symbol MSSMX.
5. *Are these 457 or 403b plans*
- A. No, they are 401(a) plans. Please see response to Question #1.
6. *What is the annual cash flow for the State DC plan as well as the Municipal DC (VMERS) plan?*
- A.
- | Year Ending | 12/2005 | 12/2006 |
|---|-----------|-----------|
| State of Vermont Defined Contribution Plan | | |
| Cash Inflow (millions) | \$2.62 | \$2.35 |
| Cash Outflow (millions) | \$3.21 | \$2.67 |
| Vermont Municipal Employees' Defined Contribution Plan | | |
| Cash Inflow (millions) | \$1.14 | \$1.24 |
| Cash Outflow | \$337,915 | \$543,833 |
7. *What is the breakdown of active and inactive participants under each plan?*

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A. As of 12/31/2006

State of Vermont Defined Contribution Plan

Active = 412

Inactive = 177

Vermont Municipal Employees' Defined Contribution Plan

Active = 344

Inactive = 199

8. *Are there any backend surrender charges or Market Value Adjustments on the plan assets?*

A. Plan mutual fund shares are bought and sold at net asset value. There are no backend surrender charges or "Market Value Adjustments" beyond shares transferring at net asset value. By prospectus, there may be penalties or trade blocks for frequent trading depending on the fund.

9. *Will the assets transfer to the vendor on the plan level, or will the assets transfer over on the individual level through rollovers initiated by the participants?*

A. The assets will transfer on a plan level.

10. *Is there going to be only one vendor for both of these plans for the duration of the contract? As such, will all future contributions go to the selected vendor?*

A. Please see RFP, section 4.3.6 and section 4.5.

11. *How many office locations does the State of Vermont have?*

A. The State of Vermont maintains one statewide retirement office in Montpelier. The current DC vendor does not maintain an office within Vermont to provide the contracted services.

12. *Are there any special language requirements for the participants?*

A. Not currently.

13. *Could you please clarify what the State's intentions are under the following requested services. It appears this requirement would not be applicable for a defined contribution plan but for a defined benefit plan with a separate account mandate:*

STATE OF VERMONT
CONTRACT FOR SERVICES
ATTACHMENT A

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SPECIFICATIONS OF SERVICES TO BE PERFORMED

1. Contractor shall act as an investment adviser for the State. Contractor shall supervise and direct the investment and reinvestment of the assets allocated to it by making investments in _____ . Contractor's goal is to attempt to provide a return after fees and commissions, over rolling 10-year periods, in excess of the _____ index(es). Performance results will be calculated in accordance with AIMR standards.

A. This provision of the State Standard Contract does not apply to the DC Plans, and will be removed.

14. Please provide the total number of members with an account balance (actives + terminated members) for each plan?

A. See response to question #7.

15. What were the total contributions & distributions for each plan for the 2005 & 2006 plan years?

A. See response to question #6.

16. Per page 12 of the RFP, who would be responsible for the initial member enrollment. Please describe your expectations with regard to materials and the software the State is seeking to support this process?

A. Please see Section 2.2 of the RFP.

17. How are employee benefits currently communicated to employees?

A. A variety of sources as outlined in Section 2.2 of the RFP.

18. What percentage of the workforce has access to email and internet at work?

A. Unknown.

19. Are there employees who have a primary language other than English? If so, what language(s) and how many employees by location?

A. See response to question #12.

20. What are your expectations regarding the expected number of in person meeting days needed for member education? Please provide a list of locations that will require in-person meetings.

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- A. Please see Section 2.2 of the RFP. It is anticipated that the bidder will provide an outreach plan to ensure adequate on-going member education.
21. *Will the State have regional meetings for a financial advisor to meet with groups of retirees on a regular basis around the State?*
- A. It is anticipated that the bidder will provide an education plan which would include group meetings. The RFP scope does not include "individual" financial advisor services other than for discussing retirement distribution options.
22. *Can you provide an asset allocation?*
- A. Investments are participant directed. The recent participant derived overall asset allocation is presented in the RFP, Attachment C.
23. *Please provide a copy of the stable value fund contract? Will this asset be liquidated at time of plan conversion?*
- A. The stable value fund is a Fidelity mutual fund investment, and the State does not have a separate contract for this fund. In the event that a contract is awarded to a Third Party Administrator other than the current vendor, access to this fund would not be available as an investment option; therefore, this asset would have to be liquidated.
24. *Will the State be utilizing an outside investment consultant for the plans?*
- A. The State may contract with an investment consultant, and review options as needed.
25. *With respect to question 3 (c) under 4.3.5 Investment Management Services, please indicate if this is critical to responding to the RFP (i.e. mutual fund company would track this specific information).*
- A. Yes. This is a critical component of a response.
26. *With respect to question 3 (f) under 4.3.5 Investment Management Services, please clarify the meaning "time-weighted" as it relates to the rates of return?*
- A. "Time-weighted" simply implies that contributions and withdrawals are time weighted in determining an investment's (fund's) rate of return, as is normal practice.
27. *Please provide the Summary Plan Description (SPD) for both plans?*

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- A. The State and Municipal DC Plans are not subject to ERISA; therefore they do not have an SPD. The DC Plans do have Plan Documents and Adoption Agreements, which would be made available pursuant to a written public records request.
28. *Which recordkeeper is providing services for the current DB plan? How will the DB information be provided so as a participant can make a educated decision between the DB and DC*
- A. The defined benefit plans are administered by the Retirement Division of the State Treasurer's Office. Please see Section 2.2 of the RFP for DB/DC election procedures.
29. *Will the vendor be expected to market the plan to current non-adopting entities within the State or will the State?*
- A. Under the direction of the State, the vendor will be responsible for marketing the DC Plan to entities within the Municipal system.
30. *Please provide information on all discontinuance fees (CDSC, Market Value Adjustments, etc.) and or restrictions (if any) that may be applicable to both plans if assets transfer to a successful respondent.*
- A. There are no CDSC fees, market value adjustments, or other restrictions other than provisions by prospectus designed to limit frequent trading.
31. *Can you please provide what the flow was in dollar amount for both the State of Vermont Plan and VMERS Plan in 2006?*
- A. See answer to question #6.
32. *Does the plan currently allow participants to take out loans? If not, does the State desire to add this as an option to plan participants in the future?*
- A. No to both questions.
33. *Does the plan currently offer a self directed brokerage account? If not, does the State desire to add this feature to plan participants in the future?*
- A. Question part A.) No. Question part B.) Not at this time.
34. *Are there any goals the plan would like to meet that are currently not being met or services the plan would like to have available that are not?*
- A. Our expectation is that the bidder will articulate a full range of options for our review.

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35. *According to “Attachment A – Standard Contract Provisions” page 37 of 58; the selected contractor shall act as an “investment advisor,” is this a minimum requirement that the contractor must be able to act an investment advisor rather than an administrative services provider?*
- A. See answer to question #13.
36. *If available, please provide data by plan for the last five years showing annual new hire figures and new 401(a) plan participants so that bidders can compare plan eligibles versus historical enrollment experience. Please provide this by State Plan and VMERS Plan if possible.*
- A. This data is not available.
37. *Please provide historical figures for total annual deferrals and total annual withdrawals for each plan.*
- A. See answer to question #6.
38. *It is our understanding that current employees’ one time opportunity to elect to transfer from their State defined benefit pension plan to the defined contribution retirement plan has passed. Will the State and/or municipalities be providing another opportunity during this contract period to current pension plan participants to make an election to join the alternative defined contribution program?*
- A. Only newly hired exempt State employees, and newly hired Municipal employees who are employed within a municipality that has offered the defined contribution plan, and any new municipalities that elect to offer the DC Plan to existing employees, will have a DB or DC election option in the future. There is currently no plan to offer another opportunity to transfer to the DC plan to those existing employees who have previously chosen to remain in the DB plan.
39. *Would it be possible to obtain a listing of all eligible and participating local municipalities?*
- A. No.
40. *Will the State require segregation of reporting for the State employees and the VMERS employees? If yes, does each individual participating municipality require separate reporting?*
- A. Question part A.) Yes. Question part B.) No.

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41. ***Attachment C of the RFP provides aggregate totals for assets invested in the Fidelity Freedom Funds. Please provide a detailed breakdown of the State and Municipal plan assets for each of the Fidelity Freedom Funds (i.e. 2000, 2005, 2010, Income, etc.).***

A.

<u>As of December 31, 2006</u>	<u>State Plan</u>	<u>Municipal Plan</u>	<u>Total 2 Plans</u>
Fidelity Freedom 2000 Fund	\$85,574	\$152,217	\$237,791
Fidelity Freedom 2005 Fund	\$34,314	\$7,673	\$41,987
Fidelity Freedom 2010 Fund	\$2,755,429	\$1,182,120	\$3,937,549
Fidelity Freedom 2015 Fund	\$357,836	\$25,683	\$383,519
Fidelity Freedom 2020 Fund	\$5,518,590	\$1,768,100	\$7,286,690
Fidelity Freedom 2025 Fund	\$358,711	\$41,641	\$400,352
Fidelity Freedom 2030 Fund	\$2,610,525	\$1,566,916	\$4,177,441
Fidelity Freedom 2035 Fund	\$232,869	\$36,265	\$269,134
Fidelity Freedom 2040 Fund	\$549,041	\$440,981	\$990,022
Fidelity Freedom 2045 Fund	\$10,876	\$20,531	\$31,407
Fidelity Freedom 2050 Fund		\$1,595	\$1,595
Fidelity Freedom Income Fund	\$4,372	\$60,760	\$65,132
Totals	\$12,518,137	\$5,304,482	\$17,822,619

42. ***Do any of the investment options offered to the State and municipal employees carry surrender/liquidation penalties or restrictions if assets are moved out of the fund(s)?***

A. **See answer to questions #8 and #30.**

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43. *Are loans available to participants in either plan? If yes, please provide the number of outstanding loans.*

A. **No.**

44. *Can the State provide more detail regarding the features it would like maintained or added to the current online plan comparison tool? Please describe how this interface between the modeling software and the State's Web site works today.*

A. **Our expectation is that the bidder will articulate a full range of options for our review.**

45. *Will the State be retaining all onsite education and marketing responsibilities or will the vendor be required to provide local participant education including seminars and individual consultations? If the vendor is to provide such services, please provide more details regarding the number of anticipated seminars and consultations the State may need each year? In addition, please provide statistics on the number of new employee orientation sessions being held by the State and each participating municipality each year.*

A. **See Section 2.2 of the RFP and the response to question #20.**

46. *Does the State serve as trustee for the plans today or is an outside trust company utilized? If the latter, who is the current trustee? Can you please provide a copy of the current Trust Agreement being utilized today and a brief explanation regarding the full or directed trust services being provided?*

A. **For the State DC Plan the State Treasurer serves as the trustee. For the Municipal DC Plan the Vermont Municipal Employees' System Board of Trustees serves as the trustees. See answer to question #27 for further information.**

47. *For the upcoming contract, does the State desire active or passive trust services for the plans?*

A. **See answer to question #46.**

48. *Please provide samples of all employee education literature being provided by the current vendor(s)?*

A. **While this information is available through an access to public records request, we recommend the bidder provide its own samples of employee communication materials and communication plan. See RFP section 4.3.2.**

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49. *Question 11 on page 26, under Section 4.3.3 asks questions regarding contribution data edits. What types of edits does the State envision being required for contributions to the program?*
- A. **The State is requesting that you detail the various data quality and assurance controls your company will provide.**
50. *Question 9 on page 25, under Section 4.3.3 asks for information regarding the system's ability to calculate employer contributions under an employer contribution formula. Please provide more details regarding the requirements for this calculation. Is the calculation work that must be conducted by the vendor prior to the employer submitting contributions on behalf of the employee?*
- A. **This response assumes that the bidder is interested in responding to RFP Section 4.5.3 Optional Cost Proposal whereby the bidder would collect all contributions from each participating municipality. As outlined in the response to Question #49, please detail the various data quality and assurance controls you are proposing. The calculation work could be conducted both before and after.**
51. *Page 20 of the RFP states that "Bidders are to organize their proposals into five parts with a cover letter and other administrative information as follows..." The chart provided following this sentence only provides four Parts. Is there a Part V and if so, please provide more information regarding the required content for this section.*
- A. **The RFP should read "four parts." There are not five parts to the RFP under Proposal Preparation.**
52. *Does the State currently provide purchased annuities as a distribution option for participants? If yes, who provides these services today and what types of payout options currently exist? Would the State desire a group purchased annuity product be made available or an individual purchased annuity product?*
- A. **The Plans do not specifically offer an annuity option, and have no intention of offering an annuity option in the future.**
53. *Do the plans have loans?*
- A. **No.**
54. *Who is current recordkeeper?*
- A. **Fidelity Investments.**
55. *Who holds beneficiary forms today?*

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- A. The current record keeper.**
- 56. Does the Retirement Division consolidate VMERS contributions and send them to the provider or are separate files sent by employer after the Retirement Division reviews them?**
- A. Yes, the Retirement Division consolidates VMERS contributions and sends them to the provider. See RFP section 4.5.3, Optional Cost Proposal for information.**
- 57. Page 10 - Contribution submittals under VMERS plan. Please confirm if the municipalities are utilizing an electronic format that fulfills direct contribution processing into the current record keeper's system.**
- A. Yes.**
- 58. Page 10 - Are all the municipality contributions sent to the State at the same time so that one file is received each bi-weekly period (containing all of the participating municipality contributions)?**
- A. Municipal contributions are made at various times; only one file is sent to the current record keeper during each bi-weekly period, capturing all contributions made during that window.**
- 59. Page 10 - For the requirement to bill directly for administrative expenses, please describe the current participant charges that your current record keeper is charging.**
- A. This data is not available at this time.**
- 60. Page 11 section 2.2 - Please describe what is expected for Investment strategy workshops and investment education meetings on a sporadic basis. Approximately how many sessions would be required each year and the number of locations?**
- A. See response to Question #20.**
- 61. Page 2.1.1 - Please describe in detail what reports would be required to provide to each individual municipality, or whether all reports on VMERS would be provided to the State's Retirement Division.**
- A. All reports currently come to the Retirement Division of the State Treasurer's Office. Please see the RFP section 4.5.3 for further Cost Proposal options available.**
- 62. Please describe if your current record keeper handles all indicative data changes directly from participants (such as address changes) and if this is sent electronically back to the Retirement Division so that the municipalities can update this data on their systems.**

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- A. Data changes are currently managed by both the current record keeper and the Retirement Division. Going forward the Retirement Division desires to be kept apprised of all indicative data changes such as address changes regardless of how the change is initiated.
63. *Page 15 - section 2.3.4 - For the Certified Financial Advisor please describe what license requirements are expected for this position. Is the Certified Financial Advisor available onsite throughout the state or available by telephone? If onsite, please provide data regarding number of individual consultations and number of locations for the calendar year 2006.*
- A. Certified Financial Advisors are not required to be licensed by the Secretary of State in Vermont. It is our understanding they are required to complete a lengthy course of study and pass an exam before they are certified. The Certified Financial Advisor does not have to be located in Vermont, but must be available by phone to speak with a participant to discuss distribution options.
- The Certified Financial Advisor will not provide individual investment advice to participants, but will only provide information regarding retirement distribution options, i.e., lump sum payouts, periodic payments, rollovers, annuities, etc.
64. *Proposed Plan Performance (Section 4.5.2 on page 33 of 58) - We would like to ensure that we fully understand the information the State seeks 4.5.2 with regard to plan performance. Please confirm that the bidder should map assets listed on page 50 of the RFP to the proposed new fund line-up and then calculate a weighted average based on that investment allocation of 1-year, 3-year and 5-year performance net of fund expenses.*
- A. Yes, your statement is confirmed with the addition that for 3 and 5-year periods the bidder is to assume annual rebalancing back to the starting asset allocation, as is stated in the RFP.
65. *Are the DB to DC projection software tools the State's, developed in conjunction with you current actuary, or were they developed by your existing plan provider. Will the winning vendor have the opportunity to review the conversion software currently used by the State?*
- A. The software was developed by the current vendor and approved by the State for the Vermont DC Plans.
66. *Is there a 12 month put on the Fidelity Managed Income Portfolio?*
- A. No.
67. *When is the planned transition date?*
- A. The anticipated transition date is expected to be completed by October 1, 2007.