

## **Exhibit J**

### Plan 3 Scope of Services

#### ***4.1 PLAN 3***

For information and examples of the Plan 3 services described in this Section (4) see the current Plan 3 record keeping Web site at <http://www.icmarc.org/washingtonstate.html>.

##### **4.1.1 Implementation of Services**

The record keeper must have a transition team on-site in Olympia, Washington, by May 1, 2015 and record keeping system tested and functional no later than May 31, 2015.

If necessary, the record keeper will be required to provide initial transition services prior to the commencement of actual record keeping services. The record keeper will not receive any fees under this contract, other than any previously negotiated start-up or transition costs identified in their Fee Proposal, until the effective date that record keeping services commence, expected to be July 1, 2015.

The record keeper must provide any requested advice related to implementation and record keeping to DRS and establish written procedures for handling all member activities.

The record keeper will accomplish the following tasks during this implementation period:

- Assign a Project or Transition Manager to manage all aspects of the implementation and transition
- Provide an implementation plan that outlines the specifics on how the implementation process will be completed, including key milestones. A record keeper implementation team must be available and on-site in Olympia, Washington, for the two-month period before and the one-month period following the effective date of the assumption of record keeping services.
- The record keeper will put at risk a stated dollar amount for each day that the record keeper misses the agreed-upon implementation dates after receiving data in “good-order”. Please see the performance standards on page 32-33 in the questionnaire.
- The successful Respondent will be expected to work with DRS to create an implementation project plan for developing a compatible system that feeds data back and forth from the record keeper and DRS utilizing the existing file data layouts (see **Exhibit F**), in a manner determined by DRS, to successfully administer the Plans. The successful Respondent will need to be on-site at DRS during the transition period to validate that requirements have been appropriately determined, systems have been designed to meet DRS requirements, and adequate testing has been completed to ensure the systems handle data appropriately and are robust enough to deal with the transaction volume. The successful Respondent will also work with DRS staff to provide staff training on all aspects of the record keeping system and (working with DRS) to ensure that all necessary

procedures have been addressed and documented. The post implementation time will be used to address system and business issues that were not anticipated during transition, if necessary.

- With DRS, develop and mail a written transition guide to all members describing the various services the record keeper will be providing and how to access them. A brochure on how to use the Voice Response System (VRS) and Internet access must be included. Costs for this communication shall be included with the Fee Proposal.
- Develop and provide to DRS an initial and on-going communication and education plan. The on-going plan must be reviewed, updated and submitted to DRS annually. The plan will identify how record keeper will:
  - Establish contacts with appropriate DRS staff and departments.
  - Hire necessary staff.
  - Establish member master files through electronic transmission from DRS utilizing the existing data feeds and file layouts. These data transmissions may also include member defined benefit information that will be incorporated into a financial education program to be discussed in greater detail below.
  - Set up interfaces with all investment fund managers, the Plan custodian and WSIB, and arrange for change of authorizations as needed.
  - Cooperate with DRS to establish administrative rules for operation of the Plan as may be required, and prepare a Manual of Tasks, Rules, and Procedures for use by DRS.
  - Establish written and actual procedures for handling all member activities including transfers, employee contributions, rollovers, and termination/withdrawals.
  - Train DRS staff on accessing and using the record keeping system as well as any applications and/or tools currently available or to be developed in the future

The record keeper's assistance will be provided in such a manner that an implementation plan audit can be completed by DRS or its contracted auditors within 90 days after the implementation date.

#### **4.1.2 Communications**

DRS will provide in-person training to personnel of the selected vendor(s) at a location to be mutually agreed upon relative to the statutory provisions, rules, policies and procedures of DRS necessary to provide any services procured under this RFP for the plans. The duration of the training will be determined by DRS on an as needed basis.

The record keeper must assist with the implementation of a financial education program incorporating aspects of the Plan 3 (DB/DC) and the DCP to achieve the DRS' goal of ensuring retirement readiness for employees.

This financial program must include robust outreach to all eligible employees and will be designed with input by the selected vendor, the DRS and/or any consultants/resources the DRS deems necessary. The DRS anticipates a comprehensive education program incorporating multiple delivery strategies/methods including but not limited to:

- Periodic benefits statement incorporating aspects of the DC and DB plans as well as Social Security estimates
- Potential call center services for Plan 3
- Web-based tools and applications
- Smartphone/tablet technology
- Videos and/or video conferencing technology
- Group-level employee sessions throughout the State
- One-on-one employee sessions conducted by licensed field representatives throughout the State
- Other new and innovative techniques/methods

A matrix outlining the current role of DRS with respect to Plan 3 and the expected transition of employee communication and education to the selected vendor is listed in **Exhibit Q**.

#### A. Development of a Customized Education Plan

The record keeper will be required to design a customized communication campaign for Plan 3 that will result in effective and professional retirement, investment and plan educational materials. The record keeper will be required to assist DRS in designing a communication plan that will provide for regular, ongoing communication with members using these materials. This plan will include a description of the tailored communication materials and recommendations on the method and frequency with which these materials will be distributed (e.g., statement stuffers distributed at group educational meetings, left at employment locations and personnel offices, mailed by the record keeper, etc.) and may include:

- Assist and support the development of educational presentations and tools.
- Communicate regularly with the DRS Education & Outreach Team and Communications to review materials, coordinate activities and maintain open lines of communication.
- Develop, with the input and approval of DRS, video presentations\* explaining:
  - Overview of Plan 3
  - Plan 3 investment information
  - Plan 3 distribution information
  - Plan Choice
  - Understanding the Plan 3 Quarterly Statement
  - Overview of SERS, TRS and PERS Plan 3 (including both DB & DC)

- Age-Based Investing
- Career Transitions
- Plan 3 Account Access
- TAP Annuity
- Special Savings Week campaigns such as National Save for Retirement Week (October) and Washington Saves Week (February).

\* Videos may include voiceover PowerPoint presentations or traditional videos, should be 20 minutes or less in length, and must be approved by DRS. Videos must be available for web delivery; however DRS may request copies for distribution to various state and local personnel offices and other locations. The Contractor will be required to modify and reproduce videos in the event of changes.

- Develop Retirement Planning Calculators and make them available on the website:
  - Retirement Savings Calculators
  - Take-Home Pay Estimator
  - Life Expectancy Estimator
  - Plan 3 Defined Contribution Disbursement Schedule Calculator
  - TAP Annuity Purchase Calculator
  
- Plan Choice Web Page
  
- Plan Choice Financial Modeling Software
  
- In person education to include:
  - Group training sessions for members and potential members of PERS, SERS & TRS Plan 3 at employer locations throughout the State.
    - Training Topics will include:
      - Getting to Know Plan 3
      - Plan Choice
      - Withdrawing from Plan 3
      - Understanding Plan 3 Investment Options
      - Plan 3 Online Tools Demonstration
    - Vendor will work with individual employers to schedule training, register participants, market the event, and provide an electronic evaluation process for each presentation.
  - Represent Washington State's PERS, SERS, TRS Plan 3 at employer benefit fairs that occur around the state.
  - Vendor will keep Education & Outreach Team informed of training schedule to allow coordination of services.

- Schedule, register participants, host and record live webinars with subject matter experts internally from DRS and externally to provide education on a variety of Retirement Readiness topics, including Understanding Plan 3. Recorded webinars should be reviewed and approved by DRS before they are added as links to the web site.
- Provide twice yearly training to DRS team members on
  - Investment options
  - Distribution options (including annuity options)
  - Other cross-training that will improve the customer's overall experience.

## B. General Requirements

Publications must present an unbiased approach to investment information and should educate participants about all aspects of the Plan, including retirement planning, investment options, and performance and distribution selections. The publication must provide information on record keeper services. The record keeper will distribute a fund prospectus upon request. Fund prospectuses shall be made available on the Web site.

One of DRS' objectives is to provide clear, concise and professional plan communication materials. DRS may choose, at its discretion, to combine some of these publications. DRS may choose (at its discretion) to handle all aspects of review and development. However, please prepare your responses and bid as if record keeper will be doing all coordination, design, layout, formatting, printing, mailing, etc.

The record keeper will be responsible for preparing, in consultation with DRS communication staff, all plan communication materials in both printed and HTML format (for posting on record keeper's and/or DRS' intranet/Internet Web page). Preparation includes the design, layout HTML formatting, printing, and where necessary, the mailing of all materials, including the quarterly Plan 3 newsletter.

The record keeper will be required to prepare professional brochures, publications and forms for members. Some publications and forms must be tailored to each plan (PERS, TRS and SERS Plan 3).

The record keeper will be expected to produce communication materials in alternate formats and languages upon request by DRS.

DRS will require the record keeper to develop communication materials in specific formats to ensure files are efficiently exchanged between DRS and the record keeper. DRS currently uses a PC platform and software which includes:

- Adobe Creative Cloud (Audition, After Effects, Dreamweaver, Illustrator, InDesign, Photoshop, Premier, Presenter)

- Microsoft Windows 7
- Microsoft Office 2013 (Access, Excel, Project, PowerPoint, Visio, Word)

DRS communications staff will actively participate in the design, drafting and approval of all communication pieces. DRS will maintain native files for all publications. DRS may elect to make revisions in the native format. Record keeper will provide input as requested during development, design, review and publication cycle. DRS will request edits and redrafting of materials as necessary. In addition, record keeper will send finished publication through its internal compliance review process.

Materials developed by the record keeper must be submitted to DRS for final review and editing, with adequate time, as determined by DRS, for DRS' review process. The information must explain both the WSIB Investment Program and Self-Directed options and provide information about the record keeper's services.

The record keeper will not be permitted to provide any generic investment materials to members. All publications and forms must be customized for DRS. All materials produced by the record keeper are for the sole use of Plan 3 members and are the property of DRS. All materials must reflect the branding of Plan 3 and will not highlight or otherwise serve as a vehicle to promote the record keeper. Plan 3 branding will apply not only to printed materials, but also to the custom Web site and toll free phone line.

### C. Required Minimums

At a minimum, the record keeper will be responsible for production and first class mailings of the following materials (including HTML formatting where appropriate). Please see **Exhibit M** for the quantities provided by the current record keeper during 2013:

- A booklet that provides a Plan 3 overview and highlights retirement investing in a defined contribution plan and includes investment portfolio construction (asset allocation) and risk/return workbook pages, investment options overview, and contribution rate information.
- Plan Choice Booklet, which provides members with all the information they need to make a plan choice.
- A summary investment guide that also serves as a prospectus-like document for a Plan's investment products.
- A distribution options brochure.
- An annuity guide.
- A brochure on how to read statements to be mailed with the first quarterly statement a member receives.
- A Plan 3 quarterly newsletter that highlights current plan activities.

For informational purposes, the various materials prepared, printed and distributed by the current record keeper are provided at

<http://www.icmarc.org/washingtonstate/publications.html>. DRS requires the selected record keeper to provide, at a minimum, these types of publications.

DRS processes and stores original documents and correspondence in an electronic document image management system. The record keeper will be required to develop designated member forms in formats suitable for recognition via Optical Character Recognition (OCR) software and black-and-white scanning. DRS uses industry-common high speed scanners for imaging documents at 200dpi.

#### D. Plan Administrative Forms

The record keeper, with DRS input and approval, must prepare all forms required to administer the Plans. Samples of the forms currently used are available on the current record keeper's Web site <http://www.icmarc.org/washingtonstate/publications.html>

#### E. Fulfillment Services

Publications and forms must be delivered by the record keeper to all DRS Plan 3 employers upon request. DRS currently maintains a supply of all Plan 3 materials on-site and expects the vendor to be able to restock that supply with one week's notice.

Specific materials, as determined by DRS, are mailed directly by the record keeper to members at their address of record. These materials may include, but would not be limited to: confirmation letters, letters announcing new plan options, and updated brochures. The record keeper must also respond to individual member requests for publications and mail them to the member address of record.

The record keeper will be responsible for developing and including Plan 3 quarterly newsletters with member quarterly statements of account and mailing the statements and quarterly summaries to members at their address of record. These newsletters must include quarterly investment performance and other pertinent information about each plan and are subject to final review and approval by DRS.

The record keeper will also develop and mail special publications announcing changes to the investment funds or other specific plan features to members at their address of record.

The record keeper will be required to update, reprint and distribute all forms and publications when necessary and may be required to produce additional publications as required by DRS. This RFP requests each Respondent to outline their costs for the design, review, editing and production of various communication pieces. This information and any limitations or restrictions must be fully disclosed in each Respondent's Fee Proposal.

## F. Internet Based Communication

### i. Basic Plan 3 Web site

The record keeper must develop and maintain a customized Web site with separate access to PERS, TRS and SERS Plan 3 information, including the current schedule for investment education workshops (see below). This Web site must be a unique site for the use of appropriate DRS members only. The record keeper Web site must:

- Have links to the Web site maintained by DRS for all Plan 3 members. To review the site maintained by the current TRS, SERS and PERS Plan 3 record keeper, go to <http://www.icmarc.org/washingtonstate.html>
- Provide the ability to view and print publications and forms and register for educational session online. This facility will provide information on available sessions including dates, times, locations as well as the ability to register for a session. It will also provide various sorting criteria (employer, county, city or date). Reporting will be available to DRS and the employer.
- Comply with state guidelines for accessibility to information technology for individuals with disabilities. These guidelines are provided by the Office of the Chief Information Officer for the State of Washington at <https://www.ocio.wa.gov/policies/1000-g1-state-guidelines-%E2%80%9393-accessibility-information-technology-individuals-disabilities>
- Have ability to provide streaming video and interactive communication abilities.
- Provide complete Web-based communications opportunities for members who do not want to receive written materials.
- Provide secured access to member account information for:
  - Account balance and contribution information and history;
  - Fund transfer and allocation change capability;
  - Ability to view and print quarterly statements online;
  - Ability to request and view personalized statements online for historical periods;
  - Ability to create initial password online to set up account access.
- Include customer support capacities to respond to and trouble-shoot member technical difficulties.

Record keeper should expect and plan for frequent changes. Web site should be designed with flexibility to re-structure and update content often as well as use responsive web design (RWD). Record keeper should test site on multiple platforms, including handheld devices. We expect that as technology changes, requirements will change.

Record keeper will develop a standardized review schedule for DRS review of Web site updates, and no changes will be made to the vendor Web site without prior DRS approval.

Respondents to this RFP should present ideas for expanding current offerings and describe the kinds of information they currently provide on their Web sites. Any Web site material provided by the record keeper for Plan 3 members must be customized and for the sole use of Plan 3 members and potential members.

ii. Establish a periodic data feed to capture basic demographic and defined benefit plan data

The record keeper will work with DRS to establish a data feed to receive defined benefit plan data for each member so that it may be incorporated into the financial education that will be delivered to members ongoing.

iii. Retirement Planning Calculators

The record keeper will develop and implement, with DRS assistance, retirement planning calculators on the Plan 3 Web site, which gives members easy to use tools to meet their retirement planning needs. At a minimum, the following calculators must be available on the Plan 3 Web site:

- Asset Allocation Tool – to assist members in determining what types of investments may best suit their needs based on their time horizon and risk tolerance.
- Take-Home Pay Estimator – to assist members in seeing the after-tax effect of various contribution rates on their current net pay. Most of the member contributions to Plan 3 are deducted on a pre-tax basis from the gross pay (some PERS Plan 3 members have after-tax contributions only).
- Defined Contribution Disbursement Schedule – to assist members in creating an estimate of payments they can anticipate from their Plan 3 DC account following separation from service considering various payout options and assumed rates of investment return. Variables that must be accepted include:
  - Date of Birth;
  - Planned Age to Start DC Withdrawals;
  - Current Balance of the Plan;
  - Current Pre-tax Contributions;
  - Annual Salary;
  - Assumed Investment Return (prior and during withdrawals);
  - Expected Salary Growth Rate;
  - Assumed Investment Return;
  - Pay Frequency;
  - Assumed Inflation Rate;
  - Planned Age at Separation from Service;
  - Term of Disbursements; and
  - Date of Birth of Joint Annuitant.
- Life Expectancy Estimator – to assist members in estimating their life expectancy based upon a given age.
- TAP Annuity Purchase Calculator – to assist members in estimating the purchase amount of annuity stream payments.

This software must be:

- Available on laptop computers used by record keeper representatives at in-person educational meetings;
- Available through the Web site the record keeper will provide; and
- Provided to DRS for its use in counseling members.

This software is subject to DRS review and approval.

The existing software can be accessed at <http://www.icmarc.org/washingtonstate.html>

iv. Plan Choice Web Page

In addition to the basic plan Web site the record keeper will maintain Plan 3 Choice Web sites which offer education to newly hired employees who must choose either Plan 2 or Plan 3 within 90 days of initial employment. The current Plan Choice Web page is available at <http://www.icmarc.org/washingtonstate/plan-choice.html>

At a minimum, the Plan Choice Web sites must offer the following:

- Capacity to provide Video;
- Plan 2 vs. Plan 3 Comparison Chart;
- Plan Choice Publications;
- Ability to View and Register for Plan Choice Workshops Online;
- Frequently Asked Questions;
- Glossary of Terms;
- Financial Modeling Software;
- Contact Information;

v. Plan Choice Financial Modeling Software

The record keeper must provide financial modeling software on the Plan Choice Web site to assist members with their plan choice decision. DRS owns the current modeling software; however, the record keeper will be expected to make modifications to this software as requested by DRS. Respondents must indicate in their Fee Proposal the costs to create this software in its entirety. The record keeper must develop this software to factor in multiple variables for Plan 2 and Plan 3 and to perform the complex calculations needed to project future benefits in each plan. The software must provide a comparison of the projected benefits for both plans based on each member's personal situation, including variables such as:

- Contribution Level;
- Expected Rate of Return;
- Life Expectancy;
- Payout Method;
- Current Age;
- Expected Years of Additional Service;
- Anticipated Date of Starting Defined Contribution Payment;

This software must be:

- Available on laptop computers used by record keeper representatives at in-person educational meetings;
- Available through the Web site the record keeper will provide; and
- Provided to DRS for its use in counseling members.

This modeling software is subject to DRS review and approval. The existing financial modeling software can be accessed at <http://www.icmarc.org/washingtonstate.html>

vi. Annual January Transfer Financial Modeling Software

The record keeper must also provide financial modeling software for SERS, TRS and PERS Plan 2 members, who are eligible to transfer in January to Plan 3, within the special criteria determined under each plan. The transfer includes an associated asset transfer. This modeling software is subject to DRS review and approval. The software must allow Plan members to calculate:

- Comparison of Plan 2 benefit vs. Plan 3 benefit;
- The impact of various contribution amounts on the member's take-home pay;
- The member's future account balances at various rates of investment return and contribution levels;
- How much income the member will need during retirement;
- The amount of expected Plan 3 payments during retirement under various pay out options and assumed rates of return; and
- Required minimum distribution amounts.

This software must be:

- Available on laptop computers used by record keeper representatives at in-person educational meetings;
- Available through the Web site the record keeper will provide; and
- Provided to DRS for its use in counseling members.

The existing financial modeling software can be accessed at <http://www.icmarc.org/washingtonstate.html>.

G. Video

In addition to written materials, the record keeper may be asked to prepare video presentations on various topics, including a video overview of Plan 3 and a video specifically focused on investment education. These videos are expected to be 20 to 30 minutes in length.

The investment education video must fully explain Plan 3 investment options and be able to replace attendance at the investment education workshops, described below, for members unable to attend.

The record keeper must update the videos when necessary due to changes in investment options, plan rules, procedures or other changes, subject to DRS' approval. These videos must be of professional quality. Videos would be available for viewing through the record keeper's Plan 3 Web site. The record keeper may be required to provide copies to DRS and employer locations. Pricing by volume is requested in the Respondent's Fee Proposal.

## H. In Person Education

The record keeper will be asked to create, schedule, and conduct educational workshops specific to PERS, SERS, and TRS Plan 3. Please refer to **Exhibit Q** for information on the quantity and types of workshops expected to be offered. Additional detail on each is provided below.

Workshops would be delivered on-site at employer locations throughout the State and the record keeper would be required to coordinate with DRS and its employers to schedule appropriate facilities for group and individual workshops. All workshops must be held in facilities that meet Americans with Disabilities Act (ADA) accessibility criteria, and reasonable accommodations must be made for members and their spouses with disabilities. Members will be asked if they require any reasonable accommodations when registering for group and individual sessions. The record keeper must also coordinate with member organizations that can assist in notifying members and encouraging attendance at education workshops.

Meeting announcement materials would also be developed and distributed to employers for use in notifying employees/members of available workshops. The record keeper must also distribute surveys at each workshop with the results compiled into a database and reported to DRS in a format acceptable to DRS.

### *i. Investment Basics Education Workshops*

The record keeper may also be required to conduct ongoing investment education workshops as needed, determined by DRS, for all Plan 3 members.

The workshops would discuss the structure of Plan 3, the contribution rate choices, the basics of retirement planning, the specific Plan 3 investment options, how to select appropriate investment options, and services provided to Plan 3 members. These presentations would include basics of investing, including investment concepts and investment risks and returns and how the various Plan 3 options fit on the risk/return continuum. The workshops may also describe the differences associated with the monthly valued WSIB TAP fund and the daily valued Self-Directed options. All s workshops would be conducted by educational personnel qualified to provide information on Plan 3 investment offerings.

### *ii. Plan Choice Education Workshops*

Newly hired PERS, SERS and TRS employees have 90 days to choose either Plan 2 or Plan 3. If an election is not made within 90 days the member defaults to Plan 3. The record keeper may also be asked to develop and conduct workshops targeted at members who are in their choice period. The information provided would be neutral in nature and will describe in

detail the structure and benefits provided within both Plan 2 and Plan 3. No marketing to either plan will be allowed in the education workshops.

*iii. Distribution Workshops*

The record keeper may also be expected to develop and present Plan 3 distribution workshop curricula and materials with DRS involvement and approval. The current distribution workshops focus on distribution options available for Plan 3 members, and last approximately one hour.

*iv. Other Presentations*

Employers periodically host benefit fairs to provide employees with access to information about their benefits. The record keeper may be expected to set up a booth at these benefit fairs and provide Plan 3 publications, answer questions for current and potential Plan 3 members, assist current Plan 3 members with reading their quarterly statement, and provide a demonstration of a benefit estimate using the retirement planning calculator.

The record keeper may be expected to attend new employee orientations and present information on the structure of Plan 3 and the contribution rate choices as well as retirement planning basics to assist new members in selecting the appropriate contribution rate.

In addition, the record keeper will provide workshops demonstrating the Plan 3 and DRS Web sites including but not limited to account access, retirement planning calculators, the publications available online, an extended question and answer period for current members, and a walk-through of a sample Plan 3 quarterly account statement.

**4.1.3 Enrollments**

**A. Initial Member Record Set Up**

All new Plan 3 members must complete the following forms at the time of enrollment:

- A Member Information Form,
- An Investment Allocation Form, and
- A Beneficiary Designation Form.

DRS, based on data received from participating employers, is responsible for the enrollment process as well as setting up and maintaining all member data except as described in the following paragraphs.

Once member enrollment data has been received from an employer, DRS will transmit to the record keeper through secure File Transfer Protocol (FTP), a data file with the information necessary to set up the member's account record and to invest the contributions which includes file indicators for a member's plan choice and investment program. The record

keeper will confirm with DRS via FTP the information received including new members, rehires, transferees, and any updates to member information. The record keeper will promptly notify DRS (by phone) in the event of a system transmittal error in which the record keeper did not receive complete member information.

The State of Washington's Department of Enterprise Services currently provides DRS use of Tumbleweed Secure Transport FTP Software, which meets the State of Washington standards for secure file transfer. Vendor should expect that this software requirement will be reevaluated, and could change, during the life of this contract.

The Member Profile record layout can be found in the Plan 3 Record Layouts **Exhibit F**. It is expected that a data file containing this new enrollment data will be transmitted to the record keeper daily. Annually, the record keeper and DRS will develop a detailed processing schedule, including a holiday schedule, providing specific times for receipt and transmission of data.

The record keeper will establish member accounts and process member account changes received from DRS on the daily transmission of the Member Profile File through the FTP. The data must be posted and available on the record keeper's system within one business day of receipt of data. The record keeper will be required to mail confirmation letters confirming a member's enrollment. These letters must be mailed within five business days of the record keeper's receipt of the enrollment information from DRS.

#### B. Transfers from Plan 2 to Plan 3

Certain Plan 2 members have an annual opportunity to transfer to Plan 3. Any transfers from Plan 2 to Plan 3 will be processed daily during the appropriate transfer periods. If the transfer is into Self-Directed Investment Program, the corresponding cash from the Plan 2 trust funds is received on the second business day of the month following the month in which the transfer occurred.

#### C. Initial New Member Investment Program Allocation

During the enrollment process, DRS and the member's employer collect only the member's Investment Program election (the member's choice of WSIB-TAP or the Self-Directed Investment Program). A member who selects the Self-Directed Investment Program will be instructed to contact the record keeper to make their Self-Directed investment allocation election. While a member must be permitted to make their investment allocation using a paper form, employers and DRS will encourage members to utilize the record keeper's customer service center or use the Plan 3 Web site. The record keeper must be able to set up allocations prior to receipt of a new member's enrollment information.

#### D. Rehires and Re-Enrollments

DRS will transmit a rehire record for any terminated Plan 3 member (PERS, SERS, or TRS) who is rehired. This transmittal will contain a code to distinguish re-hired members from new enrollments. The record keeper will send a Rehire Welcome confirmation letter to rehired members. If the record keeper does not have the member on file, DRS will be notified.

Members cannot continue to receive installment payments when they have been rehired in the same retirement system, unless they are receiving an annuity payment. If a rehire record is received for the same system a member is receiving installment payments from, the installment payments are stopped.

Members may receive a lump-sum withdrawal if it is in place before DRS sends a rehire record to the record keeper. If a lump-sum withdrawal is in place, a rehire record will be sent to the record keeper. The record keeper must be able to account for rehire contributions separately from the withdrawal.

#### E. Maintaining Withdrawn Accounts

DRS will allow members to repay previously withdrawn amounts (reinstatement). The record keeper is responsible for keeping records of these withdrawn amounts for each member that withdraws to determine the amount eligible to be repaid.

#### **4.1.4 Contribution Processing**

DRS collects member contribution data and cash from the participating public employers. Contributions may be either pre-tax or after-tax dollars. DRS collects contribution data and cash from the employers and transmits Self-Directed and WSIB-TAP contribution detail to the record keeper. DRS transmits this data via secured FTP and sends the funds virtually every business day. The Daily Activity and Daily Cash Activity file layouts can be found in the Plan 3 Record Layouts **Exhibit F**.

The record keeper must process the member contribution detail, using each member's current Investment Program (SELF or WSIB) sent by DRS. The contribution data sent by DRS to the record keeper may include member contributions (positive and negative), specialized payments, adjustments, bill payments and system/plan transfers. If the member is in the Self-Directed Investment Program, the record keeper must further process the member contributions according to their investment allocations. If no investment allocation for the Self-Directed option is on file with the record keeper, member contributions default to the Retirement Strategy Fund appropriate to the year in which they become age 65.

#### A. WSIB Investment Program (WSIB)

WSIB is offered to all Plan 3 members. There are three funds, the Total Allocation Portfolio (TAP), the Pending Total Allocation Portfolio (PTAP), and the Short Term Investment Fund (STIF).

The TAP is a monthly valued, diversified investment portfolio designed for long-term investing. Investments into and out of the TAP are allowed only once a month on the second business day of the month. The WSIB will supply the record keeper with a unit price on the 15<sup>th</sup> business day of the month following the valuation month (e.g., the record keeper would receive a unit price from WSIB on May 22, 2014). The record keeper uses the WSIB unit price to value member accounts on the next to the last business day of the month after the close of the valuation month (e.g., the valuation for May 2014 would be performed May 30, 2014).

The STIF is where contributions, bill payments, and SELF-Directed Investment Program transfers are posted and earn interest until they can be moved into the TAP.

DRS will transmit to the record keeper two files that contain member contribution detail (Daily Activity File, Cash Activity File). The contribution data sent by DRS includes member contributions (positive and negative), specialized payments, adjustments/back outs, bill payments, system/plan transfers.

Contributions and other payments are directed into and out of the TAP Fund in member accounts according to the instructions received on the Daily Activity File. Reports are generated (Activity Reports, cash management report) providing DRS with inflows and outflows of the TAP Fund.

Contributions allocated to the TAP Fund receive STIF earnings until month-end where they are swept into the PTAP, valued and swept into the TAP Fund. Member contribution data received and reconciled by the second to last business day of the month are included in the month-end valuation. The record keeper will post contributions to the WSIB STIF Fund daily using the trade-date received from DRS. During the appropriate month-end process, posted contributions are swept from the STIF Fund into the PTAP fund then swept into the TAP Fund.

If insufficient funds are available for any negative transactions, the record keeper will notify DRS by e-mail or telephone of the rejected transaction. DRS will provide instructions to the record keeper regarding the transaction. File formats will be mutually agreed upon by the record keeper and DRS.

## B. Self-Directed Investment Program (SELF)

SELF is offered to all Plan 3 members. In SELF there are currently seven separate daily valued investment funds and a target date option which includes 12 Retirement Strategy Funds. The NAV for these asset allocation funds is provided to the record keeper by the custodian.

Like the WSIB-TAP, SELF requires a STIF fund because DRS may wire funds directly to the record keeper for SELF purchases prior to the individual member detail. Once the detail is received, the individual contributions plus their portion of the STIF earnings will be allocated to the member's SELF funds according to the member's allocation mix.

In addition to the STIF account, a holding fund will be established for settlement between accounts when members are moving funds between investment options.

DRS will transmit to the record keeper two files that contain member contribution detail (Daily Activity File, Cash Activity File). The contribution data sent by DRS includes member contributions (positive and negative), specialized payments, adjustments/back outs, bill payments, system/plan.

Contributions are posted to the STIF Fund and subsequently allocated to the SELF investment option. Reports will be generated by the record keeper providing DRS with inflows and outflows of SELF.

Similar to the process for WSIB-TAP, cash for SELF is received daily from employers for contributions and bill payments and is deposited with the Office of the State Treasurer (OST) (see Custody of Assets below). DRS, through OST, wires SELF contributions the day after receipt for investment in the SELF Short Term Investment Fund (STIF). Once the contribution detail is received, DRS transmits the detail to the record keeper.

The contributions and accrued earnings during the period are moved from STIF to member accounts according to their investment allocations. Bill payments are posted directly to member accounts using the investment allocation; they do not receive STIF earnings.

All member transfer instructions and member contribution data received in good order by 1:00 p.m. Pacific Standard/Daylight Savings Time, are included in that day's reconciliation and posted to member accounts at the price as of the close of business. The record keeper contacts DRS on the same day when assistance is required for discrepancies between contribution data and assets. The record keeper is responsible for establishing the SELF STIF daily prices.

Negative contributions and negative bill payments are taken from a member's SELF account pro-rata. The record keeper wires the redeemed funds to OST on the day following the posting of the correction.

### C. Custody of Assets

Coincident with DRS completing the deposit of the contributions to the appropriate accounts at the OST, it also gives OST wire transfer instructions. These wire instructions represent a reconciled summary of the amount of the contributions that need to be wired to the custodial account. The OST then wires the contributions to WSIB's custodial bank.

The record keeper will receive an electronic file of the daily cash activity which will reconcile to the amount given to OST. The record keeper will use this file to reconcile to the member activity when it arrives from DRS.

The record keeper will be required to provide net trade instructions to the investment managers and the custodial bank, representing the aggregated instructions for the day for all transactions. The custodial bank acts upon these instructions, moving the funds between the appropriate investment accounts. The record keeper must also provide information to the custodial bank on how much needs to be wired through the OST to the Plan's disbursement account for processing of disbursements to members and beneficiaries.

The record keeper will provide a monthly status report for the prior period by the tenth business day of the following month. This reconciliation will document by plan all trading activity initiated by the record keeper, all cash transactions flowing through the custodial bank (with ending balances) to the fund manager's fund and share balances. An explanation will be provided for any differences.

### D. Suspense Items

When an employee contribution or transaction is requested and, due to lack of sufficient information or other causes, it is unclear how it should be processed, the record keeper suspends that item. The record keeper maintains a subsidiary record of all suspense items, prepares a daily edit report of all items, and transmits the edit report to DRS each day by 4:00 p.m. Pacific Standard or Daylight Savings Time. The record keeper researches and resolves each item on the edit report within seven business days. DRS provides assistance as necessary to resolve suspense items.

If there is a change in investment value, including interest, between the time the suspense item should have been invested and the time it is ultimately invested, if the investment value has increased, and the record keeper caused the suspense item to occur, the record keeper contributes the difference between the initial contribution amount and the price of the investment when it is actually purchased. In the event the investment value has gone down, the entire initial contribution amount will be utilized to purchase the investment at its current price so that there is no gain to the record keeper. Conversely, if DRS or an employer makes the error, the record keeper is required to calculate the lost earnings and notify DRS of this additional amount within three business days.

The record keeper maintains and reports to DRS a monthly suspense account balance reflecting all unpaid and uncleared transactions with corresponding occurrence dates. Currently there have been less than ten transaction items outstanding at any one time.

#### **4.1.5 Ongoing Changes to Investment Directions**

##### **A. Future Contributions**

Members can elect to have their future contributions made either to the WSIB-TAP Fund or to the Self-Directed Investment Program. Members cannot direct contributions to WSIB-TAP and the Self-Directed Investment Program simultaneously for the same employer; however, members are permitted to change the Investment Program to which their future contributions are directed.

To make a change to the Investment Program to which future contributions are to be directed, members complete an election form and submit it to their employer. The change is recorded by DRS and transmitted to the record keeper. This affects the direction of the next contribution processed by DRS for that member.

##### **B. Allocation Changes for Members Contributing to Self-Directed Investment Program**

Members who are changing from directing their contributions to the WSIB-TAP Investment Program to the Self-Directed Investment Program will be instructed by their employer or DRS to contact the Plan 3 record keeper to make their Self-Directed investment allocation election.

Since the member already has a member account record on file with the record keeper, it is expected that investment election allocations can also be processed using the Voice Response System (VRS) or the Internet.

While members must be permitted to make their investment allocation using a paper form, employers and DRS will encourage members to utilize the record keeper's customer service center or use the Plan 3 Web site.

As noted in the enrollment section, should a member selecting the Self-Directed Investment Program not make an investment allocation election using any of these methods, the member's contributions will default to the Retirement Strategy Fund appropriate to the year in which they become age 65.

##### **C. Fund Transfers within SELF**

The record keeper will be required to permit members with assets in the Self-Directed Investment Program to make transfers of assets within the Self-Directed Program on a daily basis, subject to certain trade limitations (described in the following paragraph,) by:

- Completing a paper form and mailing it to the record keeper;
- Calling the record keeper's customer service center; or
- Using the record keeper's voice response system or their interactive Web site.

To safeguard members in the Self-Directed Investment Program from the effects of excessive trading, a member transferring more than \$1,000 out of a fund is required to wait 30 calendar days before transferring money back into that same fund. The 30 day window is based on the last time the member made a transfer out of the fund. The restriction will not affect the member's regular contribution or the ability to leave service and withdraw contributions and earnings from Plan 3. Record keeper will provide DRS periodic trade data to identify excessive trading. If DRS determines that existing restrictions are not sufficiently addressing excessive trade practices DRS, at its discretion, may take additional action. DRS reserves the right to establish or revise restrictions to comply with federal or state regulations, or as circumstances indicate.

The record keeper must complete the transfers for all instructions received in good order from the member by 4:00 p.m. Eastern Standard/Daylight Savings Time using that day's Net Asset Value (NAV) closing price or value.

#### D. Investment Program to Investment Program Transfers

Members can choose to transfer their accumulated Plan 3 account balance between the WSIB Investment Program and the Self-Directed Investment Program.

The record keeper is responsible for processing Investment Program to Investment Program Transfers. Currently the member initiates this process by:

- Completing a paper form and mailing it to the record keeper;
- Calling the record keeper's customer service center.

The record keeper will complete Investment Program to Investment Program Transfers from the TAP Fund to the Self-Directed options once a month. Investment Program to Investment Program Transfer requests received by 1:00 p.m. Pacific Time on or before the fourth-to-last business day of the month, are posted during that month's month-end process (with the valuation occurring the second-to-last business day of the next month.) The total amount of all Investment Program to Investment Program Transfers resides in a "pending account" until receipt of funds from WSIB (second business day of following month) for investment in the Self-Directed investment options.

Requests for Investment Program to Investment Program Transfers from SELF to WSIB received in good order by 1:00 p.m. Pacific Time are redeemed from SELF using the price as of the close of business. The total amount of all Investment Program to Investment Program

Transfers resides in a “pending account” until the funds are received the following business day.

Members, who change the Investment Program to which their future contributions are directed, are not required to initiate an Investment Program to Investment Program Transfer. They are permitted to maintain account balances in both Investment Programs; however, they will be charged the respective fees for each Investment Program.

#### **4.1.6 Distributions**

##### **A. In-Service**

No in-service distributions are permitted under PERS, TRS or SERS Plan 3 unless they are receiving an annuity payment.

##### **B. Termination**

Employers notify DRS of all terminations. In its regular data transmission, DRS notifies the record keeper of the change in the employee’s status. Members are permitted to leave their contributions in Plan 3 until April 1st following the calendar year of attainment of age 70-1/2.

Members, who wish to initiate a distribution of their account, must complete a Distribution Election Form and submit it to the record keeper. If the member has a termination date, the record keeper will disburse the member’s account balance unless there is a legal order. DRS will electronically transmit legal order flags to the record keeper. The record keeper will validate with DRS the status of any legal order payees prior to commencing any distributions.

##### **C. Disbursement Calculation and Allocation**

Disbursements are to be paid from the record keeper’s bank account. Monthly calculation of earnings on outstanding disbursements will be performed. The earnings will be allocated annually to the funds, using monthly average fund balances. A monthly calculation by item will be provided to DRS.

##### **D. Stale Dated Checks**

After a check is outstanding for 90 days from issuance, the record keeper will mail a letter to the member with the check information and ask the member to cash the check to avoid having a stop payment placed on the check. This gives the member the opportunity to check his/her records for a disbursement check that has not been cashed. If the member cannot find the check, the letter will instruct the member on how to request the issuance of a replacement check.

After a check is outstanding for 180 days from issuance, the record keeper will place a stop payment on the check, void the check, and move the outstanding funds to a control account. The record keeper will maintain the following information on the account: check number, issue date, amount of the check, plan number, Social Security number, payee name and address. This information will be maintained until the item is resolved.

The member will not be entitled to earnings. For outstanding WSIB funds moved to the control account, earnings will be reported to DRS and deposited into the Trust fund. For outstanding SELF-directed funds moved to the control account, earnings will be moved into SELF STIF and apportioned to members as STIF earnings.

The record keeper will send a letter via certified mail to the member informing the member that a stop payment has been made on the check. The letter will also provide the member with the check information and instructions to have a new check issued. The record keeper will establish a procedure using a locator service to contact members whose letters are returned.

If stop payment has been made, the money stays in the control account until the member asks for the money. The record keeper will mail a letter annually to the last known address of the member to remind him/her that these funds exist.

The record keeper will give DRS a monthly report of members whose money has been moved into and out of the control account. A full report of every item in the control account will be provided twice per year for each plan as of December 31st and June 30th. All information maintained on the control account will be provided in the report.

**E. Distribution Options – WSIB-TAP**

Lump sum, installment payments and rollovers are currently permitted from the WSIB-TAP Fund. These options are described in the Plan 3 Request for Payment of Defined Contribution Funds brochure (see “Publications” at <http://www.icmarc.org/washingtonstate.html>). An annuity option is also available to members and beneficiaries. The TAP annuity program provisions are:

Contract Provider	Washington State Investment Board
Minimum Purchase Price	\$25,000
Annuity Payment Frequency	Monthly
Rescission Period	15 calendar days from date of purchase
Single Life Annuity	<ul style="list-style-type: none"> <li>Provides regular payments for as long as member lives.</li> </ul>

	<ul style="list-style-type: none"> <li>• Automatic 3% Annual COLA</li> <li>• Conversion option to Joint Life Annuity</li> <li>• Balance refund</li> </ul>
Joint Life Annuity	<ul style="list-style-type: none"> <li>• Provides regular payments to member or joint annuitant as long as either lives.</li> <li>• Joint annuitant survivorship options: <ul style="list-style-type: none"> <li>• 100%, 66.67% or 50%</li> </ul> </li> <li>• Automatic 3% Annual COLA</li> <li>• Balance refund (difference of what has been paid and the original purchase amount in the event of the death of the annuitant and joint annuitant, if applicable.)</li> </ul>

The annuity uses actuarial factors provided by the Office of State Actuary based on the member's and joint annuitant's ages. There are separate factors for PERS, SERS, and TRS.

i. Annuity Quotes

The member will call the record keeper to request a quote on the different annuity options. A representative will calculate the annuity through an annuity calculator developed by the record keeper using the factors provided by the Office of State Actuary. In addition, this calculator will be available on the Web site for members to run scenarios. This program will be used for the final calculation, which will also be used for processing once the final balance is completed through the WSIB monthly valuation process.

The record keeper will provide the quote to the member, along with the specific time frame the quote is good for, which is 30 days. An annuity packet will be sent to the member.

ii. Annuity Record Keeping

The record keeper will provide record keeping services for members who elect to have an annuity as a payout option. The record keeper will process the annuity application according to the following time frames:

- Requests received prior to the third to last day of the month will be redeemed on the second to last business day the following month.
- The annuity will be purchased on the second business day of the month following the redemption and the annuity policy will be mailed to the member.
- The first payment will be sent at the first of the month following the purchase of the annuity (e.g., a request received May 15th will have the first payment sent the first part of August).

This service will include reporting to DRS the amount of the annuity purchase, the subsequent monthly payments, and providing monthly payments to members via check or ACH, specifically:

- The record keeper will be responsible for maintaining a record for each individual who purchases an annuity (the record will include profile information, annuity purchase amount and other data as determined).
- The record keeper will need to deduct each monthly annuity payment from the original purchase price for the purpose of determining what the “death benefit” will be. The record keeper will be required to do so until such time as the payments exceed the original purchase price.
- The record keeper will be responsible for creating and mailing Form1099-Rs and for creating a file to be merged with DRS’ file for reporting to the IRS.
- The record keeper will be responsible for sending payment information and balancing reports.

The record keeper will need to make adjustments to monthly payment amounts for the annual COLA, pop-up and conversion features, as well as make refunds as provided.

#### F. Distribution Options - Self-Directed

In addition to the ability to rollover to other qualified plans, many payment types, including annuities and personalized payment schedules, are permitted from the Self-Directed options and are described in the Plan 3 Request for Payment of Defined Contribution Funds brochure (see “Publications” at <http://www.icmarc.org/washingtonstate.html>)

The record keeper will be required to provide an annuity shopping service for Self-Directed members who wish to receive their distribution as an annuity. For members in the Self-Directed Investment Program, who are considering annuity distribution, the record keeper will provide annuity distribution illustrations and make the annuity purchase for the member. The record keeper must obtain purchase rates from at least three companies that meet minimum qualifications agreed to by DRS. The selected record keeper will not be precluded from offering their own annuity options as long as it meets the minimum qualifications.

#### G. Distribution Processing

The record keeper processes both Self-Directed and WSIB-TAP withdrawals. DRS receives termination date information from the employer and electronically sends it to the record keeper. This acts as DRS authorization to fulfill a member’s disbursement request. If the termination date is not on file, the request will remain as “pending” for nine months, and then it is purged from the system and notification is mailed to the member. A file of these requests will be mailed to DRS. The record keeper will send DRS a “pending withdrawal indicator” on the nightly feedback file for each withdrawal request form that is received from a member.

The record keeper must electronically notify DRS of all withdrawal requests made by members, beneficiaries or legal order payees. The record keeper must electronically notify DRS of all lump sum withdrawals, all WSIB installment payments and all Self-Directed installment payments. All WSIB and Self-Directed installment payments must be reported to DRS.

If there is a special condition (e.g; legal order, high compensation) on file, DRS transmits an indicator on the Daily Activity File. If the member has a termination date on file and there are no special conditions outstanding, the record keeper will disburse the member's account balance. If there are special conditions, the record keeper must contact DRS before disbursing the funds. Once disbursement is complete, DRS requires the record keeper to provide a feedback file using codes and formatting DRS has identified. Funds are not disbursed without the appropriate authorization from DRS.

Requests received in good order from members and beneficiaries by ten a.m. Pacific Standard/Daylight Savings Time are processed using that day's closing prices. Federal and state taxes (if applicable) are withheld and filed with the proper authorities within the mandated time period. Checks are printed the following business day and mailed within 24 hours. Direct deposits are transmitted the following business day. In addition, 1099 tax forms are mailed to members by January 31 of the year following the distribution/withdrawal.

Record keeper must be able to use either the pro-rata or the modified simplified method of basis recovery, depending on type of distribution (lump sum vs. installment) and whether the member's initial payment is in the form of a defined contribution or defined benefit payment. DRS requires the record keeper to provide a feedback file using codes and formatting we have identified.

Disbursements can be made from all Self-Directed Investment Program funds except the holding fund (if applicable). If there is a balance in the holding fund, settlement must occur before the distribution is made.

Contributions, earnings, fund withdrawals, transfers, or changes posted against the SELF funds during the processing of the disbursement will be included in the account balance, depending upon payment option selected. If optional bill payments are received during the pending withdrawal period, they may also be disbursed, depending upon payment option selected.

The record keeper must also prepare and provide to members a distribution options brochure and provide Plan 3 information on the Web site. Members wishing to initiate payment of their Plan 3 account balance will be instructed to send their distribution election form to the record keeper. The record keeper will issue payments by check, electronic direct deposit and wire or electronic fund transfer based on member request with the appropriate authorization

code. The record keeper must provide confirmation to the member and DRS for payments made by electronic direct deposit, wire or electronic fund transfer.

Due to the different valuation schedules, the record keeper will make separate benefit payments from WSIB-TAP and the Self-Directed options. Since the WSIB-TAP Fund is valued monthly, lump sum payments cannot be paid until the second business day following the month-end valuation. For example, a member wishing to take a lump sum payment submits a fully completed form to the record keeper on May 20<sup>th</sup>. The lump sum payment will be in the member's TAP fund account on May 31<sup>st</sup>. Since the May 31<sup>st</sup> valuation is not calculated by WSIB until about June 25-28, the amount of the payment must be calculated and processed after the June month-end processing. Payment is made on July 2<sup>nd</sup>. Periodic payments are processed on a similar schedule.

#### H. Age 70 ½ Required Minimum Distribution (RMD) \

The record keeper will identify and notify members not currently receiving disbursements of the IRS RMD by letter two months prior to the IRS-required distribution date. Forms and instructions necessary to initiate withdrawals will be included in the packet.

The record keeper will calculate the RMD annually for all members over age 70½ to ensure members begin to receive or continue to receive their minimum distribution. If necessary, the record keeper payment amounts are increased to meet the IRS minimum requirement.

Since RMD payments are not required if a member is still working, the record keeper will suppress its system from processing RMD payments for those members. DRS notifies the record keeper of the member's working employment status. However, once the member terminates, payments will commence immediately in accordance with IRS rules.

#### I. Survivor Benefits

DRS electronically transmits beneficiary information to the record keeper. Upon receiving a beneficiary withdrawal request, the record keeper will request confirmation from DRS of the deceased member's beneficiary designation form to verify that the individuals requesting payment are the most current designated beneficiaries. Record keeper will transmit the withdrawal request to DRS. The electronic feed from the record keeper identifies this request as a beneficiary withdrawal and includes both member and beneficiary SSNs. DRS transmits the date of death and the separation indicator as authorization for payment after the date of death is confirmed.

The record keeper does not process a beneficiary withdrawal payout until receipt of the date of death from DRS. If the record keeper receives a death certificate with the beneficiary's withdrawal request, the death certificate is forwarded immediately to DRS.

Upon notification of the member's death, the record keeper will establish accounts for the beneficiaries and move the money from the member's account to the beneficiaries' accounts. The record keeper, when sending the feedback file to DRS, will include the deceased member's Social Security number, regardless of beneficiary designation.

If the record keeper receives trailing contributions and/or specialized payments for a deceased member's account, those contributions are posted then distributed to all beneficiaries as a trailing payment.

#### J. WSIB Special Exception Distribution

If a member requests an immediate payment due to an unusual circumstance, such as a terminal illness, and has separated from employment, the member may request to have 80% of the balance in the member's account distributed as a lump sum payment, based on the most recent valuation. This special exception must be approved by DRS. Payment is made as soon as feasible after DRS receives notice of termination of employment and documentation verifying the special circumstances or terminal illness and the record keeper receives the request for withdrawal from the member. Any remaining balance in the account will be disbursed through the normal month-end distribution process.

#### K. Tax Withholding and Reporting

The record keeper will be responsible for calculating and depositing the IRS withholding deductions. The record keeper will provide monthly and annual reconciliation reports and annual IRS Form 1099-R detail data to DRS. The record keeper will produce and mail 1099-R forms. Annual detail must be sent to DRS before January 31<sup>st</sup> of each year. The record keeper is also responsible for processing and researching 1099-R forms. DRS is responsible for preparing the Form 1099-R electronic file and sending it to the IRS. Record keeper will be responsible for monitoring foreign tax withholding and issuing 1042-S forms when necessary.

The record keeper will be solely responsible for any tax penalties and/or interest that may arise due to errors it made in remitting withheld amounts to the appropriate government authorities or in reporting this information to DRS.

#### L. After Tax Basis Recovery

Distributions from Plan 3 may have after-tax basis recovery reported in either the DB plan component or the DC component. Depending on type of distribution, e.g., lump-sum or installment stream, and sequence of distributions from DB component and DC component, either the Pro-Rata Method or Modified Simplified Method is used to report basis recovery.

Record keeper works with DRS to ensure proper component, method, timing, and record types are used. Periodic compares are done to ensure after-tax reporting accuracy.

#### **4.1.7 Record Keeping**

This procurement is for record keeping and related services only. The WSIB may make changes to investment management services. The successful Respondent will not be prohibited from providing investment management services; however, the WSIB will conduct manager search processes without regard to the company's role in providing record keeping services to the Plans.

The record keeper will be required to provide record keeping for member accounts for both the monthly valued WSIB-TAP Fund and the daily valued Self-Directed options. In addition, the record keeper will need to maintain accounting for after-tax contributions associated with service buy backs and other situations.

##### **A. Changes to Fund Managers**

All decisions regarding the investment funds and fund managers offered under Plan 3 are made by the WSIB. The WSIB functions as the investment advisor to the Plan. The WSIB conducts periodic reviews of the investment funds/managers and recommends changes to the funds/managers as appropriate.

It is possible that, as a result of WSIB's ongoing review and advice, there could be changes to a fund at any time. The record keeper must assist DRS in implementing any changes to the fund and communicating them to members.

While no immediate changes are expected to the current investment fund lineup, it is possible that during the course of the contract the current options could increase or decrease. It is possible that up to two Plan 3 Investment Options fund managers could change per year and that the record keeper might have to interface with as many as six different sub-advisors at any given time.

To safeguard members in the Self-Directed Investment Program from the effects of excessive trading, a member transferring more than \$1,000 out of a fund is required to wait 30 calendar days before transferring money back into that same fund. The 30 day window is based on the last time the member made a transfer out of the fund. The restriction will not affect the member's regular contribution or the ability to leave service and withdraw contributions and earnings from Plan 3. Record keeper will provide DRS periodic trade data to identify excessive trading. If DRS determines that existing restrictions are not sufficiently addressing excessive trade practices DRS, at its discretion, may take additional action. DRS reserves the right to establish or revise restrictions to comply with federal or state regulations, or as circumstances indicate.

## B. Investment Valuation

A timeline for the activities described briefly below is included in the Plan 3 Investment Guide brochure (see “Publications” at <http://www.icmarc.org/washingtonstate.html>)

### *i. WSIB-TAP Fund*

The record keeper will be required to provide monthly valued record keeping services for the WSIB-TAP Fund, which is part of a commingled trust fund managed by the WSIB. WSIB notifies the record keeper of the month-end value of WSIB-TAP Fund assets approximately 25 days after the end of the month. The valuations are net of all investment management fees and expenses.

The record keeper runs the month-end process on the second to last business day of the month for the previous month-end valuation received from the WSIB. Transactions posted during this process include contributions during the period, adjustments, benefit payments, and transfers to and from the WSIB-TAP Fund and the Self-Directed options. Money can go in and out of WSIB-TAP only once a month.

### *ii. Self-Directed Funds*

The Self-Directed options, including the portfolio funds, are valued daily. They are unitized funds. Daily unit values are provided by WSIB and/or the current fund managers as of the close of each business day. Unitized funds are net investment management fees and WSIB’s investment advisory fee. The record keeper’s fees are currently also netted out of the daily unit value.

## C. Account Information

The record keeper maintains records associated with an individual’s account, including, but not limited to: investment balances, contributions (all types), distributions, earnings, administrative fees, address, beneficiary designations, and any other information necessary for the proper administration of a member’s account.

The record keeper processes all changes to individual member data received from DRS. Details and the record layouts provided to the record keeper by DRS can be found in the Plan 3 Record Layouts **Exhibit F**.

In addition, the record keeper will also transmit an electronic file to DRS to provide notice of address changes they received directly from the member. The Address Feedback record layout can be found in the Plan 3 Record Layouts **Exhibit F**.

The record keeper will be required to enter into service arrangements, on DRS’ and WSIB’s behalf, with investment managers’ providing services to the Plans. The contractual

arrangements may include coordination of applicable administrative procedures and/or obtaining compensatory payment for conducting individual member account record keeping. Any payments negotiated by the record keeper, DRS or its representatives would need to be collected by the record keeper and used to offset Plan costs on a disclosed basis.

#### D. Property Division Orders (PDO)

DRS is responsible for qualifying and approving all information and distributions related to Property Division Orders (PDO). DRS will process two types of PDOs for Plan 3, one that provides “an interest in” an account to the ex-spouse and one that “splits” the retirement account between the member and the ex-spouse.

##### *i. Awards an Interest*

If a PDO “awards an interest” in the account to the ex-spouse, the ex-spouse cannot be paid until the member requests his/her payment. The record keeper will contact the ex-spouse at the time the member terminates employment and requests payment and inform the ex-spouse that he/she must take payment.

##### *ii. Splits an Account*

If a PDO “splits” the ex-spouse’s account from the member’s account, the ex-spouse can take a withdrawal of his/her account balance at any time. The account is independent of any action the member takes.

Upon qualification of a PDO, DRS will notify the record keeper of the terms of the PDO specifying the type of order (split or interest in). The record keeper will establish a separate account(s) for alternate payee(s) (or ex-spouse), and the record keeping system will track both parties’ Social Security numbers on the member's and alternate payee’s account.

While DRS is the primary record holder, the record keeper maintains on its record keeping system PDO information. The record keeper will accept and update their system with address changes for the ex-spouse and will transmit the address change to DRS on the Member Feedback file. If the ex-spouse is also a Plan 3 member, the record keeping system will distinguish between the member account and ex-spouse split accounts and will apply the correct beneficiary and address information to the appropriate account. DRS will provide the record keeper with ex-spouse birth date information.

For both PDOs, state law requires that if an ex-spouse dies before the member takes payment; the money awarded to the ex-spouse is paid to the ex-spouse’s estate. DRS will provide to the record keeper any necessary records such as legal orders. The record keeper is responsible for the disbursement process for both members and their ex-spouses or beneficiaries. DRS requires the record keeper to provide feedback file data on interest-in and

split accounts that are different from each other. The appropriate codes and formatting identified by DRS must be used. (Vendors should note that Plan 3 uses Property Division Orders, while DCP uses Domestic Relations Orders.)

E. Order to Withhold and Deliver (OWD) (Child Support Payments)

DRS transmits to the record keeper a “legal order indicator” on the daily activity record when an OWD is received. The record keeper receives instructions from DRS when an OWD payment is ordered. This includes instructions regarding the amount to be paid. Payments are not permitted until the member separates from service and requests a payment; therefore this information arrives from DRS shortly after a pending withdrawal indicator is sent by the record keeper. DRS sends updated information prior to sending the separation indicator.

If a member has money in both Investment Programs, the record keeper communicates with DRS to determine which Investment Program will be used to satisfy the OWD. The OWD is satisfied and the remaining funds will be paid to the member according to the disbursement request. DRS provides the payee and mailing address for all OWD payments.

F. Member Statements

The record keeper is required to prepare and distribute, by first-class mail or by email at member’s request, quarterly member statements of account activity that will include beginning and ending balances and activity during the period (contributions, withdrawals, and investment returns). All information must be provided in both dollars and share/unit value. The statements include plan-to-date contributions, comparative charts of asset allocation, year-to-date contributions, and net gain or loss, as well as the various special reporting features, including:

- Pending transaction account;
- STIF balances (should net to zero at end of quarter);
- Plan entry date;
- Special contributions, such as bill payments, specialized payments, legal settlements, etc;
- Contributions (pre- and post-tax).

The record keeper must send a statement of account activity to the member’s address of record no later than 15 calendar days following the quarter’s end; for WSIB-TAP members, a statement must be sent 15 calendar days from the end of the final month of the quarter’s evaluation (e.g., the June 30 statement for TAP would be mailed by August 15). To accommodate the time lag on the valuation of WSIB-TAP, members with account balances in both WSIB-TAP and Self-Directed currently receive two statements at different times.

A quarterly jointly developed, edited and approved by DRS newsletter, will be delivered by the record keeper. The record keeper will be responsible for printing the newsletter and inserting it into the quarterly statements of account.

As described under Communications, the record keeper will be responsible for developing and mailing a brochure with the first quarterly statement a member receives. The brochure will be a guide to understanding the member quarterly statement (see “Publications” at <http://www.icmarc.org/washingtonstate.html>)

#### G. Plan Level Reporting

A listing of the Plan 3 reports expected to be provided by the record keeper can be found in the Plan 3 Management Reports **Exhibit G**.

#### H. Online Access

DRS requires the ability to read member data (including but not limited to: member account balances, allocation percentages, transaction history and withdrawal payout information) on the record keeper’s system. The record keeper must provide DRS with a method, in a format acceptable to DRS, to accomplish this.

If a member cannot use technology to make balance transfers and/or allocation changes directly, then a paper form is still available. The form typically will be sent to the record keeper by the member. In the event that it is sent to DRS, DRS may use electronic transmission to update those items.

The record keeper must maintain a data monitoring system that flags any changes to a member’s account and identifies where the change originated (for example, transactions from DRS or the record keeper, or member initiated changes through the record keeper’s voice response system).

The on-line system must be compatible with DRS’ current computer system, or some other alternative acceptable to DRS. The online system must provide DRS with connectivity to member data, which is current as of the completion of the valuation process for the prior business day. Additionally, the current system also offers members the ability to access all retirement accounts through a single-sign on feature. The record keeper must be able to accommodate this system.

The record keeper will coordinate with DRS to provide materials and information in a format that meets Americans with Disabilities Act (ADA) accessibility criteria, and reasonable accommodations must be made for members and their spouses with disabilities.

### **4.1.8 Customer Service**

#### A. Voice Response System (VRS) and Internet

The record keeper must maintain an adequate number of staff and an adequate number of toll-free telephone lines with voice response capabilities and Internet access to provide the required services. The record keeper will be required to respond to customer phone calls

within 30 seconds on average. Both VRS and Internet access will be available 24 hours a day, with the exception of the time necessary for normal maintenance of the system and updating of information. The telephone number must be TDD/TTY capable. The VRS must provide the following information and services to the member from a touch-tone telephone:

- General plan overview information including how to reach a customer service representative at DRS, how to reach the various investment firm's customer service representatives, and other topical information;
- Current account balance, broken down by investment option and by plan (if applicable);
- Current investment returns;
- Current unit values or share prices;
- Daily changes in share prices or unit values;
- Inquiries about current investment election (allocation of investment returns);
- Changes to allocation of future contributions;
- Transfers of existing assets between investment options;
- Changes to Logon ID or PIN (Personal Identification Number) and password;
- Requests for the most recent statement, plan informational brochures and forms.

Inquiry services available through the VRS and Internet must use the most current available share prices, unit values and account balances as of the previous day.

#### B. Customer Service

The customer service representatives must be available to answer member questions between the hours of 8:00 a.m. Pacific Standard/Daylight Savings Time and 6:00 p.m. Pacific Standard/Daylight Savings Time each business day. All telephone calls must be recorded, and maintained in a retrievable location for at least 90 days. The record keeper will provide members initiating transactions via customer service representatives with a confirmation number followed by a written or electronic confirmation at the choice of the member. Confirmations that are mailed must be sent directly to the address on file for the member within three business days.

In addition, the record keeper must provide DRS with monthly reports on service center activity including, but not limited to, purpose of calls, abandoned calls and voice response system and Internet usage.

The record keeper will ensure that the personnel answering the customer service lines are qualified to provide information on the investment offerings under PERS, TRS and SERS Plan 3 and to discuss investment concepts and retirement planning considerations. The record keeper will ensure that such information is provided in a manner consistent with the requisite insurance and securities laws, and that all personnel, who provide such information, will be properly licensed with all required regulatory agencies, if applicable.

If unavailable at the time of a phone call, the record keeper's representative will call back a member on the next business day. The record keeper must provide telephone assistance to members who are taking a distribution under the Plan, and advise members of payment options. DRS will be provided unedited access to recorded calls on a random basis, as requested, to review for quality and accuracy.

The record keeper will provide telephone support services for all the complexities of Plan 3 including, but not limited to:

- Investment Program transfers including the special processing requirements due to the monthly valuation of the Total Allocation Portfolio (TAP);
- Address changes of active members (by directing these to DRS);
- Withdrawal processing and bill payments;
- Plan choice;
- Plan transfer, as applicable.

#### C. E-mail Inquiry Service

The record keeper will also maintain a customer service e-mail inbox for member inquiries. E-mails are to be answered within one business day.

#### D. Transaction Capabilities

Changes to investment allocations must be made to the member's record on the date they are requested. Investment transfers received prior to the closing of the financial markets must be made on the next business day using the previous day's NAV or value.

The record keeper will allow members using the VRS or Internet access to effect a transaction, issue a confirmation number, and follow with a written or electronic confirmation, which will be mailed directly to the address on file for the member, within three business days. An error committed by the record keeper through the VRS, the Internet, or in regular processing will be corrected and processed as of the effective date of the original transaction.

Any errors and complaints made regarding services provided by the record keeper will be corrected at the record keeper's expense so that the value of the member's account is not less than it would have been had the error not occurred. The record keeper will mail written confirmation of the correction to the address on file for the member within five business days after the correction is made.

The record keeper must respond to member questions and complaints. DRS will work closely with record keeper on these issues. The record keeper will develop a process to identify and track issues. This process will identify the types of issues which are brought to DRS' attention immediately. DRS will review and approve this framework. At a minimum, the

record keeper will bring any complaints not resolved within five working days to DRS' attention.

The record keeper must provide a proposal for DRS review and approval for formally assessing member satisfaction with the record keeper's services and how member and/or employer satisfaction issues would be identified, reported, and corrected.

#### **4.1.9 Computer Security**

The record keeper must keep duplicates or back-up computer data files maintained in connection with the plans at an alternate site. Maximum recovery time can be no more than 24 hours. Additionally, the record keeper must have a disaster recovery plan in effect and will be required periodically by DRS to provide evidence that the system has been tested within the last 12 months.

All computer data files for Plan 3, as maintained by the record keeper, will at all times remain the property of DRS, notwithstanding the fact that such records may be stored upon or within one or more computer or data retention systems owned, operated or leased by the record keeper. DRS or its representatives will, at all reasonable times, have access to the records. To the extent that any such records are to be maintained upon a computer system, or any other data retention system, which is not owned by the record keeper, the record keeper will provide DRS with assurances from the owner of such computer facilities, satisfactory to DRS, of the continued availability and security of such records.

The record keeper must also demonstrate to DRS that the system used for record keeping will have an adequate capacity to handle the volume of records generated as well as daily transmittals. In addition, the record keeper needs a test environment that is accessible by DRS project staff and has the capability of emulating the record keeper's production environment, complete with daily and monthly posting cycles. The record keeper must have program version software in place to control software development.

The record keeper must provide access to DRS to all back-up source materials, reports, books, records, computer programs, and all other information and documentation relating to Plan 3, as reasonably required so that DRS and/or its designated officers, agents and accountants, can conduct a financial examination and/or audit of Plan 3.

Vendors will be responsible for maintaining security requirements set by the Washington State Information Services Board (ISB). Requirements, as of June 23, 2014, are provided in the Information Technology Security Standard, **Exhibit I**. Vendors should review the exhibit and confirm they can meet requirements specified. If unable to meet requirements, they must document the specific discrepancies in the Scope of Services Review, Section 7.1. DRS will work with the ISB and ASB during contract negotiations to ensure current requirements are addressed prior to contract signature.

#### **4.1.10 Program Audits**

The record keeper must provide, within 60 days of the close of each fiscal year, a reconciled annual summary report for each Plan. The report will be fully reconciled with the sum total of member transactions for the relevant period, as reflected on the record keeper's records.

The record keeper will also cooperate fully in the development and execution of Plan audits. A separate audit may be conducted for each Plan. The audits will be conducted in accordance with generally accepted auditing standards (GAAS) and will be performed on a fiscal year basis with a fiscal year ending June 30 of each year. In addition, these audits will include certain agreed upon test procedures, including but not limited to the following:

- Reconcile between the trustee/custodian or other party's Plan asset records, DRS 'records and the record keeper's participant records;
- Confirm assets held in trust/custody under the supervision of the trustee/custodian or other party with the parties providing the actual investment options;
- Reconcile revenue received by the trustee/custodian or other party with the specific revenue of the various investment options;
- Test charges to Plan assets and withdrawals from the Plan to determine compliance with trustee/custodial agreements and Plan provisions;
- Test actual investments held by trustee/custodian or other party to determine whether they coincide with actual participant records.
- Audits of your IT security standards to confirm compliance with the standards found in **Exhibit I**.

Payment or reimbursement for the audits will be determined during contract negotiations.

#### **4.1.11 Supplemental Processing and Compliance Activities**

##### **A. ADA Compliance**

The record keeper will coordinate with DRS to provide materials and information in a format that meets Americans with Disabilities Act (ADA) accessibility criteria, and reasonable accommodations must be made for members and their spouses with disabilities.

##### **B. Alternate Communication Format**

The record keeper will be expected to produce communication materials in alternate formats and languages upon request by DRS. The ability to accept alternate identifiers is required.

##### **C. Member Privacy**

In addition, the record keeper will work closely with DRS to ensure that all Internet privacy guidelines are enforced as outlined in the Governor's Public Records Privacy Protections Executive Order 00 03 **Exhibit D** and the DRS Internet Privacy Statement **Exhibit E**.

##### **D. Confirmation Letters**

Confirmation letters should be provided for most member activities. Currently confirmations are mailed for the following transactions:

- Fund transfers within the Self-Directed Investment Program;
- Allocation Changes within the Self-Directed Investment Program;
- Investment Program Transfers:
  - Transfers from WSIB to Self-Directed;
  - Transfers from Self-Directed to WSIB;
- Address Changes:
  - Confirmations are sent to previous and new address;
- Requesting an initial Internet password:
  - Requesting a password reminder by mail;
  - Requesting a password reminder by e-mail;
- Confirmation of password changes on the Internet and VRS;
- Adjustments:
  - Informs member if an adjustment has been made to their account;
- Disbursement confirmations:
  - Confirmations are sent detailing disbursement date and type of withdrawal;
  - Letters are sent if there is missing information on withdrawal paperwork, such as the notary signature required for the member signature;
  - Minimum Required Distribution letters to inform member of age 70.5 requirement and the amount to be distributed;
- New Member Welcome Letter (there are currently 29 versions of these letters due to the complexity of the set-up of member enrollments):
  - New Plan 3 members are sent welcome letters when they are set up in the record keeping system.

Only the Welcome Letter and Disbursement Confirmations will identify a portion of a member's Social Security number. A reference code system will be used by the record keeper in place of the Social Security number for all other confirmation letters.

If the record keeper receives withdrawal paperwork or other written transaction requests that are unclear as to what the member is requesting, the record keeper will call the member directly to verify the request.

#### E. Address Changes

DRS transmits changes of address records to the record keeper to update the Plan 3 record keeping system. If an active member calls the record keeper to give a change of address, members are instructed to update their address with their employer. The employer sends the new address to DRS which, in turn, sends the new address to the record keeper via the member profile file.

Written address changes for terminated members, inactive members (not currently employed) or beneficiaries received by the record keeper are entered on the record keeper's system and electronically sent to DRS.

In the case of property division orders, ex-spouses may update their addresses directly with the record keeper and the change will be transmitted to DRS on the feedback file.

#### F. Undeliverable Mail and Statements

Returned mail sent to the record keeper, which does not contain a new forwarding address, will be designated as "Undeliverable." All "Undeliverable" and address changes are updated for both Investment Programs.

If the member is terminated and the returned mail contains a new forwarding address, the record keeper will update its system with the new address. Since DRS and the Plan 3 employers maintain the active member addresses, any returned mail for an active participant containing a new forwarding address is not updated. The account will be flagged as "undeliverable."

#### G. Specialized Payments

On occasion, DRS may require the record keeper to post specialized payments. These payments may occur due to litigation, legislative actions, or other unique circumstances. The record keeper will be required to uniquely identify and account for each specialized payment. The record keeper should assume that each specialized payment will be separately identified on quarterly statements and other reporting as required by DRS.

#### H. Correction of Contributions

The record keeper provides a process for reversing or correcting erroneous transactions (for members who are erroneously assigned to the wrong plan, the correcting activity is generally a full account back out and reposting) and notifies DRS when such an event occurs. Incorrect postings due to the record keeper's error are corrected and funded by the record keeper.

DRS electronically transmits adjustments to member accounts to the record keeper. The record keeper trades all negative and positive transactions on the specified trade date. The record keeper reviews the negative transaction created to ensure that there are sufficient funds to cover an adjustment.

For SELF, if a negative contribution is received and there are insufficient funds in the current investment fund, the record keeper will use the prior contribution allocations until sufficient funds are located.

For both WSIB and SELF, if sufficient funds do not exist in the account, the record keeper notifies DRS of the situation and either deletes the transaction or changes it according to instructions from DRS.

#### I. Correction of Earnings

In the event that a transmittal contains errors or omissions, DRS will notify the record keeper and work with them to ensure that the accounts are made whole. This type of adjustment may require funding to cover the financial impact of the correction. For adjustments that require a cost recovery estimate, DRS will send requests for cost estimates to the record keeper. Cost estimates will be provided to DRS as soon as possible. Gains and losses will be offset at the account level when calculating the cost recovery estimate. Upon approval from the Plan 3 employer, DRS will instruct the record keeper to process the adjustment. For WSIB, every effort is made to incorporate the adjustment into the month-end process. Once completed, the cost and associated gain/loss will be reported to DRS for repayment.

DRS has instituted a process to verify the Investment Program to which the employer transfers money. If DRS discovers an error, the record keeper will be notified. If the error is not discovered by month-end, DRS will instruct the record keeper to perform an Investment Program-to-Investment Program transfer.

#### **4.1.12 Plan Level Support Activities**

DRS may require adjustments to member accounts due to occasional discrepancies in the contribution detail provided to DRS by employers. The record keeper provides cost estimates to DRS and makes the corresponding adjustment to member accounts. DRS wires the money to the record keeper two days later to cover the cost of the adjustments. The record keeper sends a letter to the member and the member's employer explaining the dollar cost for the adjustment.

The record keeper sets up, on DRS' behalf, all investment-related accounts.

Fees may be collected on either a disclosed or undisclosed basis (netted from returns prior to crediting of returns) or both. The fee schedule may be a per-member fee, an asset-based fee or a combination. DRS may also require the record keeper to collect fees in a manner that would limit the amount of fees collected on large individual account balances such as a graduated asset fee. Members are not charged an additional administrative fee for the WSIB Investment Program. Members, who invest in the Self-Directed Investment Program, pay investment management and advisor fees as well as an additional administrative fee.

The record keeper reconciles investment accounts for each plan with investment providers, trust and custody records. DRS records these monthly and the record keeper provides a copy of the monthly financial reports and reconciliation summary to DRS within ten days of month-end. The monthly financial report reconciliation summary for each plan will be in a

form acceptable to DRS. Any manual transactions, which include dollars posted to members' accounts, must be included in your financial statements.

The record keeper will provide, 30 days prior to the implementation date, a manual of tasks, rules, and procedures for operation of the Plans, including a description for record keeper employees of how all services to be provided hereunder will be performed. The record keeper will review this manual and update it, if necessary, and will submit such changes to DRS for review and approval.

The record keeper will have adequate qualified personnel available to conduct, at DRS offices, at least semi-annually, complete and detailed training sessions for DRS staff on the record keeper's systems and processing methodology, including instruction on how to use the online access system.

The record keeper will perform any and all administrative functions necessary to ensure the thorough and accurate financial accounting essential for each party's financial records.

The record keeper will research and resolve, with DRS' assistance, any member statement of account not received by the member but returned to the record keeper and provide a summary report to DRS within 30 days of mailing statements.

The record keeper will ensure that DRS has a qualified account service representative available on a fully dedicated basis to provide timely and comprehensive assistance with all aspects of the record keeper's services.