Recordkeeping Services and Investment Services for the Surs 401(a) and 457(b) Retirement Plans RFP 2019 Q&A

Please note that Appendix A – Statement of Minimum Qualifications has been revised

Please note that Appendix J – Plan Summaries, Specifications & Demographic Data has been revised

Please note that Appendix P – Annuitization Legal Opinion has been revised

There will be a conference call to allow respondents a chance to ask additional questions of Surs on February 11, 2019 at 1:00pm Central Time. The dial in information is:

Phone: 888-904-9570
Passcode: 3788855

1. Does the 401(a) plan allow loans or unforeseeable emergency/hardship withdrawals? If yes are the participants able to self-certify that they do not have loans or hardships with another provider or turn off loans and hardships at other recordkeepers?
   - The 401(a) plan does not permit loans or in-service withdrawals.

2. Please confirm the total assets from each provider that can move at the plan level without participant consent. Are there participant 401(a) assets with any providers other than TIAA and Fidelity?
   - As of 12/31/18, mappable assets from Fidelity are approximately $1.36B and mappable assets from TIAA are approximately $570.33M. There are no participant assets with any other providers.

3. Appendix F - Administration, Recordkeeping and Custodian Coordination (viii) Ability to create and maintain shell accounts for all members, including accounts with a $0 balance. Will the recordkeeper be provided a census data or indicative data in order to create the shell accounts? What is the purpose of these shell accounts?
• While we have utilized shell accounts in the past, we do not anticipate needing them in the future.

4. Appendix F - “Participant Communications/Education Services” (ii) Develop, design and host scheduling and online registration software for all outreach efforts. Please provide additional details on what type of registration software is required and for what purposes.
   • SURS is looking for the selected recordkeeper to provide access to an online registration tool that can be used by member and participants to sign up for one-on-one and/or group meetings.

5. For the 457(b) plan, will the plan sponsor be determining eligibility and notifying the record keeper when the participant reaches their annual salary cap limit?
   • Yes.

6. This appears to be a multi-employer and multi-recordkeeper arrangement. Are employers able to leave the arrangement? Are participants in the 401(a) plan able to move balances between providers (Fidelity and TIAA)? Is this considered non-exclusive or exclusive (we see references to “transfers to another provider”)?
   • SURS employers had to choose to opt-in to the SMP 401(a) plan. 58 of SURS 61 employers chose to participate. No employers have left the plan after choosing to participate. Employers will also need to choose to participate in the 457(b) plan.
   • SURS has contracts with both TIAA and Fidelity to provide recordkeeping and administration services to participants. These are the only recordkeepers available to participants and participants can transfer balances between these providers once per quarter.

7. There appears to be two money market funds and a TIAA illiquid option. Would the two money market funds possibly move to a stable value fund or continue to be stand-alone investments?
   • SURS is interested in consolidating investment options and seeking proposals to do so.

8. What are the discontinuance provisions of the current stable value product(s)?
   • The Fidelity MIP Class 2 fund has an industry standard 12-month put.

9. There has been an increase in the amount of rollovers to IRAs or other qualified plans and transfers to other providers for either Fidelity or TIAA. Is it possible to provide
additional information on why there is an increase in this type of activity for the three-year period (2015-2017)?

- **SURS does not have information regarding the exact reason for the increase in rollovers, however we are interested in solutions that would reduce rollovers out of the plan.**

10. Will one stable value option be offered on the Fidelity and TIAA platforms (replacing the "Fidelity MIP II" and "TIAA Traditional Annuity")?

- **SURS is interested in consolidating investment options and seeking proposals to do so.**

11. Please confirm if the Stable Value Plan is only offered in the 401(a) SMP and not in the IRC 401(a) or the IRC 457(b) plans.

- **The SMP is an IRC 401(a) plan record kept by TIAA and Fidelity. The Fidelity platform offers a stable value fund, the Fidelity Managed Income Portfolio Class 2. This fund is only offered on this platform. The investment options for the 457(b) plan have not yet been determined.**

12. Please provide cusips for the Fidelity CITs.

- **Fidelity® Contrafund® Commingled Pool - 31617E851**
- **Fidelity® Growth Company Commingled Pool - 31617E836**
- **Fidelity® Diversified International Commingled Pool - 31617E844**

13. The RFP indicates the proposal includes recordkeeping and custodial services. Can you confirm trust services are also included? The RFP lists Northern Trust as the Master Trustee Custodian. Are you willing to move away from that relationship?

- **The selected recordkeepers will be used for trust services for the 401(a) and 457 (b) plans. Northern Trust is the custodian for SURS defined benefit plans.**

14. How many education representatives currently work with participants of the State University System?

- **Fidelity has allocated one full-time educational representative to the SURS plan. TIAA has allocated four part-time representatives to the plan. SURS also has 3 counselors in-house that work with the SMP providing general plan education and retirement counseling.**

15. Are communications needed in languages other than English? Which languages?

- **No.**
16. What communication methods have you found to be effective with your membership/participants?
   - We utilize multiple communication channels and have found targeted email campaigns, webinars and on-site individual meetings to be most effective.

17. Please provide information on the stable value funds in the plans today. What is the current crediting rate? What are the expense ratios? Are there any termination provisions or liquidity restrictions (i.e. MVA, 12 month put, etc.)?
   - The SMP currently has Fidelity Managed Income Portfolio Class 2. As of 9/30/18, the crediting rate is 2.26% and net expense ratio is 0.57%. There is an industry standard 12-month put.

18. Please provide the current service agreements.
   - Please see the sample agreement on page 19.

19. What are the current fees for the plan today?
   - Current fees do not represent the fees we hope to see moving forward.

20. Please provide a list of any ancillary fees that are currently being charged to the plan and or its participants. i.e. QDRO’s, financial advice, etc.
   - There are currently no ancillary fees.

21. Does the plan currently have managed account program with either provider? If yes, please provide the total assets in those programs today. If yes, is SURS willing to map those assets to a managed account program should they move to a new provider? If no, is SURS willing to review a managed account program as a part of the Investment Services included in this RFP?
   - No, the plan does not have a managed account program with either provider. SURS may be willing to consider a competitively-priced managed account program in the future.

22. Does the plan currently utilize a self-directed brokerage option? If so, please provide the company being used as well as the total assets in the program today.
   - No, the plan does not utilize a self-directed brokerage option. We are willing to consider a self-directed brokerage option in an effort to consolidate investment options.
23. Does SURS calculate the service credits and provide them to the vendors or does SURS provide data for the service provider to calculate the service credits in determining vesting?
   • **SURS calculates service credit and provides it to the vendors via the SPARK 2.0 data file.**

24. As it relates to the automatic enrollment legislation being considered, is it SURS’ intent to auto enroll only those initially above the current salary cap; or when an employee, due to promotion or raise, increases above the salary cap? If the later, will SURS track when an employee’s salary increases above the cap or with the recordkeeper be required to track this information?
   • **If the legislation passes, it would be SURS intent to enroll both those initially above the salary cap and those who may exceed the salary cap at a later time due to a promotion or raise. SURS will track when the employee’s salary exceeds the cap.**

25. The RFP requires a dedicated Relationship Manager. Is SURS preference that this Relationship Manager is exclusive to SURS?
   • **The Relationship Manager does not need to be exclusive to SURS.**

26. For white label and custom fund of funds, would SURS prefer that pricing to be included in the recordkeeping expense or the fund NAV? If in the recordkeeping expense, how many single fund white label options are expected and how many custom fund-of-funds are expected?
   • **We would like to see both formats. The use of white label options and custom fund-of-funds are to be determined.**

27. As a part of the SMP redesign, what new withdrawal provisions is SURS considering?
   • **SURS is seeking in-plan distribution solutions for participants that would allow them to receive a monthly benefit for life while still having access to a portion of their account balance.**

28. Appendix H - Please confirm if Appendix H applies to both the Recordkeeping Services and Investment Services RFPs.
   • **Confirmed. Appendix H applies to both the Recordkeeping Services and Investment Services RFPs.**

29. Appendix C - Appendix C requires a seal. Please clarify the type of seal required and if it can be provided electronically.
• The form must be signed. The seal is optional. Both may be submitted electronically.

30. Scope of Services - Please provide details related to the eligibility requirement that the vendor should be prepared to manage.

• For the SMP, SURS will send the recordkeeper service credit information daily in the SPARK 2.0 data file. The recordkeeper will determine vesting & eligibility for employer contributions based on whether the member has 5 or more years of service credit. As for meeting the age and service requirements to take a retirement distribution, SURS monitors this eligibility and the member is required to apply for a retirement distribution through SURS. There will be no eligibility to monitor in the 457(b) plan.

31. Scope of Services - Please provide additional details related to the limits by each plan (i.e., IRS annual contribution and/or salary limit) that the vendor should be prepared to monitor. Also indicate frequency for monitoring (i.e. per pay period, annually, etc.).

• SURS will monitor all limits for the 401(a) plan and earnings limits for the 457(b) plan. The selected recordkeeper will need to monitor the 457(b) IRC contribution limit and should be willing to work with the State of Illinois Deferred Compensation 457(b) recordkeeper to monitor an aggregate limit between the plans.

32. Appendix J - Plan Summaries, Specifications and Demographic Data, you provided contributions and distributions for 2015-2017. Could you please also provide the contributions and distributions for each provider for 2018?

• 2018 statistics are not available.

33. Does the plan currently utilize managed accounts service? If yes, please provide the total assets and the total number of participants by provider.

• No, the plan does not have a managed account program with either provider.

34. In Paragraph 2 on page 4 of the RFP, you indicated that “$2.2 billion of the assets under management are mappable to a new provider”. In Appendix J, however, the sum of the assets in all funds for both providers less the illiquid assets amount to $2.3 billion. Could you please confirm the total assets that will map to a new provider?

• As of 9/30/18, $2.2B is mappable to a new provider. As of 12/31/18, $1.9B is mappable to a new provider.
35. Can you provide a schedule for single record keeper and for each scenario of dual record keepers of asset liquidity by record keeper? For example, how do you expect the TIAA traditional assets to transfer?
   • Please refer to Appendix C – Fee Proposal for estimated asset liquidity per scenario.

36. Do vendors need to bid both the exclusive and dual vendor scenarios?
   • No, the bidder can choose to bid on either or both scenarios.

37. Can you confirm that all member groups will move as a component of the RFP and the MEP? Can you divide the assets of the plan by sub group?
   • Yes, all member groups will move as a component of the RFP, but not all assets will transfer to a new provider(s). As of 12/31/18, mappable assets from Fidelity are approximately $1.36B and mappable assets from TIAA are approximately $570.33M.

38. Is the expectation for all groups to transfer at one time?
   • Yes.

39. For the registered mutual funds, please provide current tickers.
   • Please refer to Appendix J – Plan Summaries, Specifications and Demographic Data for the list of investment options.

40. For the investments that are not mutual funds please provide:
   • CUSIPs
     - Fidelity® Contrafund® Commingled Pool - 31617E851
     - Fidelity® Growth Company Commingled Pool - 31617E836
     - Fidelity® Diversified International Commingled Pool - 31617E844
   • Investment type for each (CIT?)
     - Fidelity® Contrafund® Commingled Pool - CIT
     - Fidelity® Growth Company Commingled Pool - CIT
     - Fidelity® Diversified International Commingled Pool - CIT
   • How are these investments traded and settled? (Via NSCC? Manually via fax and wire?)
     • Because Fidelity is currently the master recordkeeper for the SMP, the trading and settlement occur on their system (FPRS).
• Who will provide daily prices and/or periodic rates?
  • **Fidelity strikes the NAV for the pools and sends the NAV’s daily to their recordkeeping system for processing as SURS is on the Fidelity platform.**

• Who will provide fund fact sheets?
  • **Fidelity provides the fund fact sheets for the Fidelity managed pools.**

41. Act 40 mutual funds are mentioned in the RFP. However would a white label collective trust approach be considered where available?
  • **Yes, a white-label collective trust will be considered where available.**

42. Can you elaborate around custom website features?
  • **SURS is looking for a recordkeeper who will be a partner with the flexibility to accommodate the unique needs of our participant base. Custom features may include, but are not limited to, providing a website with customized language, branding and tools.**

43. Appendix F - Scope of Recordkeeping and Custodial Services: Administration, Recordkeeping and Custodian Coordination (iv) Ability to accommodate multiple payroll remittance files with differing payroll processing schedules (e.g., daily, weekly and semi-monthly). How many different payroll remittance files will be sent to the record keeper? Does each employer send their own payroll file?
  • **All employer payrolls flow through SURS with SURS sending the money to the current master administrator (Fidelity), so there is one payroll location.**

44. Appendix F - Scope of Recordkeeping and Custodial Services: Administration, Recordkeeping and Custodian Coordination (v) Accept updates to member/participant updates (name changes, addresses, termination dates, rehire dates, etc.) via the file feeds without support documentation. How many other file feeds will be sent to the record keeper? What is the frequency of each file feed?
  • **SURS sends one daily SPARK 2.0 file with demographic and payroll information. SURS also wires contributions daily.**

45. Is there a requirement for any reporting to be done by the employers who are part of the SURS system)?
  • **Currently, SURS employers send a payroll file with contributions to SURS and SURS determines earnings based on those contributions. In the future, employers may be required to report additional information.**
46. Appendix B - Questionnaire for Recordkeeping and Custodial Services, Question 78 states, “How do you anticipate working with the frozen recordkeeper(s) to ensure the SMP is kept in compliance and to notify SURS of any existing problems occurring between the recordkeepers in a timely manner?” Please elaborate on what is meant by “frozen recordkeepers”

- The frozen recordkeeper would be the inactive vendor in the occasion that SURS decides to move away from the incumbent providers and assets are retained at that provider due to individual contracts.

47. Appendix F - Scope of Recordkeeping and Custodial Services: Administration, Recordkeeping and Custodian Coordination (xiv) Extensive monthly, quarterly and annual reporting and data mining on both a plan and participant level to be mutually agreed upon. Please elaborate regarding requirements for the monthly, quarterly, and annual reporting and data mining. (How many reports are required, what information should be on the reports, etc.)

- SURS is looking for the recordkeeper to provide quarterly reports and an annual summary outlining participant metrics and behavior. These items would include, but are not limited to, deferral rates, participation rates, number of participants in each fund, assets by fund, rollovers out of the plan, automatic enrollment statistics, website and call center usage, and the number of participants who are active, but have stopped contributing for the 457(b) Plan. Additionally, SURS may look to receive reporting on a monthly basis relating to fund balances, new enrollments or other metrics to be determined. It is important that data is regularly provided that will allow SURS and the recordkeeper to focus communication efforts to achieve desired participant outcomes.

48. Appendix F - Scope of Recordkeeping and Custodial Services: Administration, Recordkeeping and Custodian Coordination (xv) Ability to report accurate information regarding distributions, provider to provider transfers, and roll-ins on the correct line item on the quarterly statement files. What is meant by Quarterly Statement files? Is there a requirement to send quarterly data somewhere, or is this asking for a detailed distribution report on the Quarterly Statement? Does this apply to Employee statements, Employer statements, or both?

- SURS puts together a unified quarterly statement for employees using quarterly statement data sent to SURS from each provider. The providers currently send files FTP. A delimited format is preferred. SURS also receives a monthly distribution and forfeiture report.
49. Under the third required minimum qualifications listed for the Retirement Income Solution provider, it states the proposed must be an investment consulting firm registered as an investment advisor. Are we to assume that Illinois SURs is searching for a consultant in an OCIO mandate for this solution, or would a registered asset manager with a fund based solution also be able to compete for this opportunity?

- **Asset managers with a fund based solution are eligible for this opportunity.**
  *SURS is clarifying this point via an amendment.*

50. In addition to the information provided in Appendix J, does Illinois SURS have any more data pertinent to those participants in or near retirement? Specifically, can SURS provide balance, income, participant age, and allocation data in aggregate for the retiree and near retiree population?

*Data available is as follows:*

**Members near retirement**

- Age 55-61 with 8+ years of service
  - **Average Balance** $262,487, **Average Earnings** $66,726
- Age 62 plus with 5+ years of service
  - **Average Balance** $202,390, **Average Earnings** $57,925
- Age 50 plus and 25+ years of service (for police officer or firefighter)
  - N/A
- Any age with 30+ years of service
  - **Average Balance** $639,353, **Average Earnings** $103,170

51. Can SURS clarify, what they expect the redesign of the SMP will provide in regards to lifetime retiree health benefits, as the combination of retiree health benefits and retirement income can provide the foundation of a retirement solution. What type of healthcare benefits are provided to individuals, do these include long-term care considerations?

- **SURS retirees meeting certain eligibility requirements may enroll in an insurance plan administered by Central Management Services (CMS) that provides health, dental, vision and prescription coverage. Long-term care is not included. SURS retirees may be eligible for one of the following two plans:**

  - **College Insurance Plan (CIP)**– the member must have been full-time and eligible for benefits at a participating community college at some point in their career (City Colleges of Chicago members are not eligible for CIP as they have their own insurance plan for retirees); member must receive a monthly retirement annuity; member is responsible for member and dependent premiums.
- State of Illinois Group Insurance Plan– the member must have 5 years of service credit at a state university or agency; must receive a monthly retirement annuity; the state will pay 5% of the member premium for every year of qualified service credit the member has at retirement; members active in the SURS system on 7/7/97 may qualify for premium-free insurance under special provisions of Public Act 91-395; member is responsible for any applicable member premiums and all dependent premiums; this plan also includes life insurance

Both plans convert to Medicare Advantage plans at age 65 if the member & dependent are eligible for Medicare.

More information on these insurance benefits can be found at mybenefits.illinois.gov

52. What will a proposed solution have to look like in order to qualify for the lifetime health benefit?
   • Please refer to Appendix P.

53. What are the annuitization options currently provided on the SURs platform that could be combines with a proposed retirement income solution?
   • SURS currently uses Principal Life Insurance Company and TIAA as annuity providers. Both providers currently offer a single-life annuity, 50 and 100 percent joint and survivor annuities, and guaranteed periods for any of these options of 10, 15 and 20 years. TIAA also offers a variable annuity

54. Does SURS expect assets to be mapped into the selected retirement solution at inception?
   • Yes.

55. Does SURS have any preference around the structure of the proposed solution (i.e. collective vehicle, mutual fund, separately managed account, or individual managed account)?
   • There is no preference. SURS is open to considering various investment vehicles.

56. For the Supplemental Plan, have you a sense of how many existing employees may select to participate?
   • There is no estimation or target figure for how many existing employees may select to participate in the Supplemental Plan. Please note that in Appendix C – Fee Proposal, there is a general assumption that 3% of active Self-Managed
Plan members will enroll in the Supplemental Plan and that members will be automatically enrolled after they reach their salary cap.

57. Can you confirm the number of new employees who are hired each year across the System?
   - There were approximately 8,651 new hires across all plans last fiscal year.

58. Can you confirm the current level of financial education provided to the plan participants including number of service representatives, individual meetings and group meetings?
   - Please refer to Appendix J – Plan Summaries, Specifications and Demographic Data under SMP General Plan Information for this data.

59. The Annuitization Legal Opinion (Appendix P) indicates there are health insurance benefit eligibility differences between State retirees and community college retirees. It also indicates that there is a legal memorandum that provides background on how these eligibility requirements may be satisfied. Would you be willing to share this memorandum to provide additional information that may help guide us on the types of investment solutions that meet these requirements?

60. With respect to the effort “to redesign the SMP to provide members with a hands-off default investment option”. What is the intent with respect to the need for member engagement, if any, to make investment elections? Relatedly, is the intent that members be automatically allocated to the new investment default, subject to opting-out?
   - It is SURS’ intent that members will be automatically enrolled in the default investment option if they do not actively choose their own investment option(s).

61. In order to propose a suitable custom retirement income solution to SURS it would be helpful to review certain additional demographic data. Is SURS able to provide the following:
   - Average or median Defined Benefit (DB) accrued benefit and DB benefit formula. If available by age cohort (e.g. 25 to 30, 30 to 35 etc.) that would be most helpful.
     - SURS does not track the average value of accrued defined benefit member benefits. SURS is a multi-tiered system with multiple formulas.
For more information regarding defined benefit formulas, see SURS member guides at surs.org.

- Average or median DC balance by age cohort or just near retirement
  - Age 55-61 with 8+ years of service
    - **Average Balance $262,487**
  - Age 62 plus with 5+ years of service
    - **Average Balance $202,390**
  - Age 50 plus and 25+ years of service (for police officer or firefighter)
    - N/A
  - Any age with 30+ years of service
    - **Average Balance $639,353**

- Salary information by age cohorts or average starting salary and annual growth rate
  - Starting salary information & annual growth rate are not available.

- Average retirement age
  - 63

- Average or median savings rate
  - **SURS members contribute to the 401(a) DC and DB plan at a set contribution rate, 8% for most members**

62. Of those participants taking distributions, what is the average age at time of distribution? How many have reached normal retirement age?

- **Data is only available for members age 55 plus who have reached normal retirement age and is as follows:**
  - Age 55-61 and 8+ years of service
    - 58
  - Age 62 plus with 5+ years of service
    - 67
  - Age 50 plus and 25+ years of service (for police officer or firefighter)
    - 0
  - Any age with 30+ years of service
    - 59

63. How many individuals taking retirement to date have fallen into the various classifications of normal retirement age?

- Age 55-61 and 8+ years of service
  - **299 took lump-sum/rollovers, 234 took annuities**
• Age 62 plus with 5+ years of service
  • 884 took lump-sum/rollovers, 517 took annuities
• Age 50 plus and 25+ years of service (for police officer or firefighter)
  • 0
• Any age with 30+ years of service
  • 2 took lump-sum/rollovers, 3 took annuities

64. How many Tiers of participants are there, and how are they defined?
  • **Tier I members are participants with SURS or another eligible Illinois retirement system who certified prior to 01/01/11. Tier II members are participants with SURS or another eligible Illinois retirement system who certified on or after 01/01/11.**

65. What changes, if any, are anticipated to the Normal Form of Distribution and/or Normal Retirement Age definitions in the Plan, or will this depend on the Retirement Income Solution chosen?
  • *This will depend on the Retirement Income Solution chosen.*

66. Given the legal opinion letter on definition of annuity, and the fact that the 457(b) Plan appears to offer a term certain annuity, is there consideration to this benefit form (or payments over a specified period of time) for the 401(a) Plan? If yes, is there a minimum period in which it would satisfy the requirement to provide retiree health benefits?
  • **Community college members must receive a monthly benefit for their lifetime to receive health benefits. It is SURS’ intent to provide lifetime benefits for all retirees under the SMP. SURS would like to see proposed in-plan distribution solutions that allow members to receive a monthly benefit for life while still having access to a portion of their account balance.**

67. If not 100%, is there a minimum allocation being considered to an annuity, either as a percentage or dollar amount?
  • **SURS will work with the selected providers to determine the proper allocation percentage.**

68. Should the design of a Retirement Income Solution take into account just the 401(a) Plan, or also the 457(b) Plan? What are the investment options currently being planned for the new 457(b) Plan?
  • **Ideally, SURS would like to design a solution and investment line-up that can be used across both plans.**
69. Are income payments required to be level payments (i.e., the same from one period to the next)?
   • No.

70. Is there a requirement that the income solution satisfy RMDs?
   • Not necessarily.

71. Does the following statement imply that only investment consulting firms are invited to respond? “The proposer must be an investment consulting firm registered as an investment adviser under the Investment Advisers Act of 1940.”
   • Asset managers with a fund based solution are eligible for this opportunity. SURS is clarifying this point via an amendment.

72. Can you please provide the name of the current payroll system/HRIS that is utilized by SURS? Are there any plans to make any changes or upgrades to the payroll system in the next 24 months?
   • SURS currently processes payroll through an AS400. Payroll is sent to the providers via a Spark 2.0 file.

73. Please confirm if SURS will require the recordkeeper to administer a separate salary deduction agreement for accrued payouts?
   • Yes, separate agreements will be needed for any deductions outside of normal contributions.

74. There is a provision in the 401(a) plan that a former participant that has taken a distribution can bridge their previous service but only after 2 years of service and with the repayment of the distribution. Please outlined how these employees will be identified or will the Plan Sponsor adjust the date of hire after the 2 year period and the repayment?
   • SURS will identify these members and adjust the hire date when distributions are repaid.

75. Please provide the unique number of participants with a balance across all vendors?
   • There are approximately 21,500 participants with a balance at either TIAA or Fidelity. Approximately 20 percent of those members have a balance at both TIAA and Fidelity.

76. Are the annuity options are currently offered through Fidelity or TIAA, but not in the DB plan?
• Yes, the annuity options currently available in the SMP are exclusively offered through TIAA and Principal.

77. How does the recordkeeping process notify SURS that the participant annuitized?
  • Currently, members who annuitize are required to first apply through SURS. SURS then notifies the providers. Once the annuitization has occurred, the provider sends SURS an email confirmation and reports it on a monthly distribution file.

78. Are all the annuity options today are out of plan? Which annuity options are available to the participants?
  • All annuity options are in-plan. SURS currently uses Principal Life Insurance Company and TIAA as annuity providers. Both providers currently offer a single-life annuity, 50 and 100 percent joint and survivor annuities, and guaranteed periods for any of these options of 10, 15 and 20 years. TIAA also offers a variable annuity.

79. Will the new supplemental plan require a lifetime income stream for the retiree medical, or will the retiree medical qualification only be based on the SMP?
  • The retiree medical qualification only applies to the SMP and DB plans. It will not apply to the 457(b). However, SURS is inclined to make the income solution available to 457(b) participants seeking to close their retirement readiness gap.

80. Please confirm that the member will be able to invest in the new supplemental plan even if they select the Self-Managed Plan.
  • Yes, eligible SMP members will be strongly encouraged to invest in the Supplemental Plan along with the SMP. SURS plans to ultimately use automatic enrollment and automatic escalation to enhance participation of SMP members in the supplemental plan.

81. Is it possible to be in both the Traditional/Portable plan and the SMP plan?
  • No, members cannot be in both. If a member does not choose a plan within 6 months, they will be permanently enrolled in the Traditional Plan.

82. After the conversion, what is the mix of 1:1 and group meetings that are desired?
  • To be determined.

83. Please provide 2018 call volume/chat and email volumes.
• In 2018, Fidelity handled 3,036 SMP calls and TIAA handled 1,078 SMP calls. Email volumes are unavailable.

84. Does Fidelity Managed Income Portfolio Class 2 have a 12 month put or similar exit provision?
  • Yes, the Fidelity Managed Income Portfolio Class 2 has a 12-month put.

85. Does the sponsor intend to have one investment lineup going forward?
  • Yes, SURS is interested in consolidating investment options and seeking proposals to do so.

86. How many separate payroll contacts are there? It appears the payroll is consolidated through SURS, but is each payroll submitted on a separate file? Do the participating employers fund separately?
  • SURS receives 66 payroll files and aggregates the payroll into one file that is sent to the recordkeeper.

87. Please provide the balance and number of participants in managed accounts, if applicable.
  • The plan does not have a managed account program with either provider.

88. Would a custom approach that included all proprietary funds would be considered for the income solution or would it need to be open architecture with other managers?
  • Yes, SURS is interested in both proprietary fund and open architecture proposals.

89. Do you have any estimated asset inflow into the income solution?
  • While we do not have an estimate, we would expect that the majority of assets would ultimately be invested in the income solution as it will be the default option for new hires that choose the SMP and for employees that enroll in the 457(b).

90. With respect to #5 of the “Appendix A-2: Statement of Minimum Qualifications for Investment Providers,” please indicate which legislation, State fiduciary, ethics, diversity laws, and additional disclosure requirements, are applicable.
  • Each Responder will be expected to know and comply with all applicable state and federal laws. The following list is not intended to be exhaustive nor is it intended to provide legal advice or render a legal determination with respect to any Responder. To the extent that a Responder will be providing non-
fiduciary recordkeeping and administrative services, it will generally be expected to comply with provisions specific to the Self-Managed Plan (40 ILCS 5/15-158.2) and/or the 457(b) supplemental plan (40 ILCS 5/15-202), the respective plan documents of such plans, provisions of general applicability under Articles 1 and 15 of the Illinois Pension Code (40 ILCS 5/1, 15) concerning defined contribution plan administration, all federal tax laws applicable to 401(a) and/or 457(b) plans to maintain tax-favored status, and any legislation that falls within these categories. To the extent that a Responder will be serving in a fiduciary capacity such as a consultant, investment adviser, or investment manager, the Responder will be expected to comply with provisions applicable to consultants, investment advisers, or investment managers under Article 1 of the Illinois Pension Code. Furthermore, Responders providing services in any capacity will be expected to comply with the laws and provisions identified in the section entitled “Required Statutory Certifications” in the draft Recordkeeping and Administrative Services Agreement (see Appendix G).

91. With respect to #6 of the “Appendix A-2: Statement of Minimum Qualifications for Investment Providers,” please clarify SURS’ definition for being qualified to do business in the State of Illinois, specifically if the proposer needs to be qualified to submit an RFP response, or only later if awarded a mandate.

- **The Responder is expected to know and comply with all applicable state and federal laws that would permit the Responder to do business in the State of Illinois with respect to the services being offered.** The Responder must be qualified to do business in the State of Illinois and be duly registered as required under applicable state and federal laws as of the date when the Responder has signed the certifications under Appendix A-2. SURS will rely on the certifications and representations of the Responder as to this requirement, unless it becomes aware of any fact or law that would disqualify the Responder from doing business in the State of Illinois or rendering the services being offered. Responders should promptly notify SURS if they become aware of any fact or law that would disqualify the Responder from doing business in the State of Illinois or rendering the services being offered.
# Sample Service Agreement Report

<table>
<thead>
<tr>
<th>Standard/Service</th>
<th>Service/Quantifier Standard</th>
<th>Percent Completed within Standard</th>
<th>Plan Penalties</th>
<th>SLA Met</th>
<th>Penalties this Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality standard for number of seconds on hold while call transfers to CSR</td>
<td>75% of calls answered within 30 seconds based on a minimum of 250 per month.</td>
<td>86.4%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>Abandonment Rate</td>
<td>3% - based on a minimum of 250 calls per month</td>
<td>1.9%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>Individual/Administrator Web Availability</td>
<td>99% (excluding regularly scheduled maintenance)</td>
<td>99.9%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>VRS Availability</td>
<td>99% (excluding regularly scheduled maintenance)</td>
<td>100.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>National Call Center Availability</td>
<td>Call center is available 100% of scheduled hours</td>
<td>100.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>Contribution Remittances</td>
<td>Same business day as receipt of funds as of 4:00 PM ET or earlier market close; assumes prior receipt of payroll data in good order.</td>
<td>100.0%</td>
<td>Provide economic equivalent of investment experience from appropriate trade date through actual processing</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>Termination distributions and lump sum payments</td>
<td>99% processed within 5 business days after receipt of approved request received within good order</td>
<td>99.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>Fund to Fund Transfers</td>
<td>99% processed within the same business day the request is received within good order by 4:00 p.m. ET or earlier market close.</td>
<td>100.0%</td>
<td>Provide economic equivalent of investment experience from appropriate trade date through actual processing</td>
<td></td>
<td>$0.00</td>
</tr>
<tr>
<td>Standard/Service</td>
<td>Service/Quantifier Standard</td>
<td>Percent Completed within Standard</td>
<td>Plan Penalties</td>
<td>SLA Met</td>
<td>Penalties this Quarter</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Transfers between plans</td>
<td>99% of requests to transfer between like registered plans under the Employer are processed within 3 business days of the request being received in good order by 4:00p.m. ET or earlier market close</td>
<td>100.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Beneficiary Service (Survivor Benefits Payments)</td>
<td>99% of claims processed within 5 business days of receipt of approved request received in good order.</td>
<td>100.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>QDRO Processing</td>
<td>90% of transactions processed within 20 business days of request received in good order.</td>
<td>100.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Issue Resolution – Time to Resolve</td>
<td>95% of verbal customer issues closed within 5 business days. 98% of verbal customer issues closed within 10 business days.</td>
<td>3 Verbal Issues 5 Day=100% 10 Day=100%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Administrative Reporting-Timeliness</td>
<td>Reporting for the preceding quarter is available on the Plan Sponsor website within 3 business days after the end of the reporting period.</td>
<td>100.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Participant Statement-Timelines</td>
<td>95% mailed within 10 business days after end of quarter (paper). 95% available within 10 business days after end of quarter (online).</td>
<td>100.0%</td>
<td>$892.85 per quarter (up to $3571.42 annually)</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Participant Satisfaction</td>
<td>85% satisfaction rating (7 or higher on a 10 point scale)</td>
<td>Reviewed annually in Q4</td>
<td>$3571.48 annually</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Standard/Service</td>
<td>Service/Quantifier Standard</td>
<td>Percent Completed within Standard</td>
<td>Plan Penalties</td>
<td>SLA Met</td>
<td>Penalties this Quarter</td>
</tr>
<tr>
<td>------------------------</td>
<td>----------------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>---------------------------------------</td>
<td>---------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Plan Sponsor Satisfaction</td>
<td>85% satisfaction rating (7 or higher on a 10 point scale)</td>
<td>Reviewed annually in Q4</td>
<td>$3571.48 annually</td>
<td>$0.00</td>
<td></td>
</tr>
<tr>
<td>Communications</td>
<td>All non-regulatory, plan specific communications, other than Core campaigns, will be reviewed/approved by SURS prior to mailing</td>
<td>Reviewed annually in Q1</td>
<td>Up to $3500 annually</td>
<td>$0.00</td>
<td></td>
</tr>
</tbody>
</table>
ISSUE 2
ELIGIBILITY FOR HEALTH INSURANCE BENEFITS

Legislative History, SMP Plan Document, and SORS Policy

The State Employees Group Insurance Act of 1971 defines who is eligible for health insurance benefits. As it pertains to SORS, eligible groups include “members” (who are State retirees and certain of their dependents and survivors) and “community college benefit recipients” (who are community college retirees, as well as certain defined dependents and survivors). These two groups are defined similarly, but with notable differences:

- **State Retirees:** “Member” includes, among others, an “annuitant.” To qualify as an “annuitant,” an individual must retire with an “immediate annuity” under Article 15 of the Pension Code.

- **Community College Retirees:** A “community college benefit recipient” is defined to mean a community college retiree who “is receiving . . . a monthly retirement annuity under Article 15 of the Illinois Pension Code.” 5 ILCS 375/3(z).

When the statutory authorization for the program now known as the SMP was first enacted, a State retiree was considered an “annuitant” under the State Employees Group Insurance Act (and therefore eligible for health insurance benefits) only if he or she “is receiving a retirement annuity” – the same requirement that applies to community college retirees. That particular requirement was struck by Public Act 90-448, which also broadened and liberalized the SMP and the types of benefits available to retirees:

“Annuitant” means (1) an employee who retires, or has retired, on or after January 1, 1966 on an immediate annuity under the provisions of Articles 2, 14, 15 (including an employee who has retired and is receiving a retirement annuity under the optional retirement program established under Section 15-158.2 and who would also be eligible for a retirement annuity had that person been a participant in the State University Retirement System), paragraphs (b) or (c) of Section 16-106, or Article 18 of the Illinois Pension Code;

Public Act 90-448 (originally enacted at 40 ILCS 15/158.2(b)) (Aug. 16, 1997). Additionally, Public Act 90-766 struck a provision that specifically provided that SMP participants who purchased an annuity contract using the lump sum proceeds from a mutual fund would be eligible for health insurance benefits, although the reason for its deletion is not clear.

The term “annuity” is not defined under the State Employees Group Insurance Act, although it is used within that Act in reference to the Pension Code. Article 15 of the Pension Code defines “annuity” as a series of monthly payments that ends “the calendar month in which the annuitant dies or the annuity payment period ends.” 40 ILCS 5/15-118.

Under the terms of the SMP Plan Document, forms of payment include various annuity options and a lump sum distribution option. A participant who terminates employment prior to the “Normal
Retirement Age” (“NRA”) and elects to commence the payment of his benefits prior to NRA (or who is not vested in employer contributions at the time of termination) may only elect payment in the form of a lump sum. A participant who terminates employment on or after the NRA, or who terminates employment prior to the NRA but defers payment of benefits until the NRA, may elect to have his benefits paid in one of the forms of annuity available under the SMP or as a lump sum distribution. If an annuity form of payment is elected, the participant’s account balance is distributed by the purchase and distribution to him of an annuity contract providing for the elected form of payment.

SURS’s current policy under the State Employees Group Insurance Act is that in order to qualify for health insurance: a participant in the SMP must elect an annuity form of payment with respect to his or her entire account balance under that plan. In addition under the terms of the SMP, if a retiring participant receives health insurance under the Act, SURS may require that an annuity elected by the participant be purchased from a specified insurance company in order to facilitate the deduction and payment of any applicable health insurance premiums.

SURS is considering an amendment to the SMP to add the following distribution solutions:

- **Lifetime Drawdown Option**: First, a participant could elect to receive a lifetime monthly drawdown of the participant’s SMP account balance, which would be designed to provide income for the participant’s life. This distribution option would include monthly installment payments, but not necessarily the purchase of an annuity contract from a life insurance company. We refer to this distribution option as the “Lifetime Drawdown Option”.

- **Drawdown and Longevity Annuity Option**: Second, a participant could elect to receive (i) a monthly drawdown of the participant’s SMP account balance until a given age, such as 85, and (ii) a lifetime guarantee or longevity annuity to provide income after that age. Most of the SMP account balance would be used for installment payments, and only a portion would be used to purchase the tail-end annuity contract. We refer to this distribution option as the “Drawdown and Longevity Annuity Option”.

**Analysis**

Neither the definition of “annuitant” quoted above, nor anything that we have found in the legislative history, expressly provides whether an installment form payment, such as the installments contemplated by both options described above, would be treated as an annuity or whether a participant who elects to annuitize only a portion of his SMP account balance, such as

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4 See Second Restatement of the Self-Managed Plan, Section 7.2(a). The State Salary and Annuity Withholding Act permits withholdings for certain purposes, including participation in optional retirement programs and certain insurance benefits. 5 ILCS 365/4.
for a longevity annuity as part of the Drawdown and Longevity Annuity Option, would be treated as an annuitant.

The legislative changes described above, and in particular Public Acts 90-448 and 90-766, were part of a broadening and liberalization of the SMP and the types of benefits that could be elected by participants. There are two other specific changes and provisions that could support the determination that a retiree (who is otherwise eligible for health insurance benefits) does not forfeit his or her eligibility because he or she elects to participate in either option described above and, as a consequence, receives installment payments:

- First, as noted above, the definition of “annuity” within Article 15 of the Pension Code specifically contemplates that an annuity may not extend for the entire lifetime of the retiree, which could be construed as a reference to a period of installment payments. While the State Group Employees Insurance Act does not define “annuity”, it uses the term in reference to Article 15 of the Pension Code, so that definition should be persuasive as to its meaning in the Act. Unfortunately, it does not incontrovertibly cover installment payments as it may simply be a reference to a life annuity and period-certain form of payment. Nevertheless, the treatment of installment payments as annuities in other areas is not without precedent: under Section 72 of the Internal Revenue Code, installment payments that satisfy certain conditions are treated as annuities.

- Second, with respect to State retirees, as described above, the requirement that the retiree be presently “receiving a retirement annuity” was deleted by Public Act 90-448. This deletion may have been intended to permit retirees who elect to receive their SMP account balances in the form of installment payments to qualify as “annuitants” and thus receive health insurance benefits, notwithstanding the fact that at some point they will no longer be receiving monthly payments.

There is no express requirement that an SMP participant’s entire account balance be used to purchase an annuity. Although there is little or no commentary in the legislative history or court interpretation of which we are aware, it would be reasonable for SURS to take the position that a participant who elects a systematic withdrawal of his or her account balance satisfies the definition of annuitant, provided that the individual meets all other applicable requirements of the State Employees Group Insurance Act.

Similarly, if an installment payment option is permitted, we do not believe that the addition of a longevity annuity or lifetime guarantee, such as would be provided under the Installment and Longevity Annuity Option, would cause the participant to become ineligible for health insurance benefits. The longevity annuity would, in and of itself, be an “annuity” within the meaning of the

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5 Article 15 of the Pension Code defines “annuity” as a series of monthly payments that ends “the calendar month in which the annuitant dies or the annuity payment period ends.” 40 ILCS 5/15-118 (emphasis added).

6 IRS regulations, which while not necessarily controlling for State law purposes are informative, provide that the “amounts so payable or the period for which they are to be paid can be determined as of [the annuity starting date]” using mortality tables or compound interest computations. Treas. Reg. 1.72-1(b). Dividends, refunds, and earnings in excess of the stated amounts are not treated as annuity payments for tax purposes. Id.
statute. Although it would not commence immediately upon retirement, it would be an extension of the installment payment benefits that precede it. It would be reasonable for SURS to view the entire benefit package – i.e. the combination of the installment payments from the drawdown of the account balance and the longevity annuity – as a whole when determining eligibility.

In addition to the general question concerning installment payments and partial annuitization, we considered two other related questions: (i) the eligibility of retirees who terminate prior to the NRA and (ii) the eligibility of retirees whose annuity or installment payments terminate prior to their death. Those questions are addressed below:

**Persons Who Terminate Employment Prior to the Normal Retirement Age**

As described above, a State retiree is considered an “annuitant” (and therefore eligible for health insurance benefits) only if he or she retires “on an immediate annuity”. The SMP Plan Document imposes limitations on when participants would qualify to receive an “immediate annuity.” If precluded from receiving an immediate annuity under the SMP Plan Document, a participant would be ineligible to receive health insurance. The mere fact that a participant who qualifies for an annuity under the SMP Plan Document terminates employment prior to the NRA should not disqualify the participant from receiving state health insurance once the participant elects on or after the NRA to begin receiving his or her annuity.

Community college retirees' eligibility, however, is not dependent on whether the retiree retires “on an immediate annuity”. Instead, a community college retiree must be currently “receiving . . . a monthly retirement annuity”. This distinction suggests that a community college retiree who retires before reaching the NRA, but later receives a monthly retirement annuity, could become eligible for health benefits at the time he or she begins receiving annuity benefits. SURS is authorized to determine eligibility for benefits of community college benefit recipients (5 ILCS 375/6.9(c)) and therefore could make determinations to clarify this issue with respect to community college retirees.

**Eligibility After Termination of Payments**

A related issue is whether a retiree who elects to receive benefits other than a lifetime annuity, such as installment payments or an annuity for a specific number of years, would be eligible for health insurance after those payments terminate.

Assuming that the payments meet the definition of “annuity”, a community college retiree would be eligible for health insurance benefits while receiving those payments, but not after those payments terminate. As explained above, a community college retiree must be “receiving . . . a monthly annuity” to be eligible for health insurance benefits (5 ILCS 375/3(c)). If a retiree is no

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7 Article VII of the SMP Plan Document provides the minimum requirements that a participant must satisfy in order to be eligible to purchase an annuity. A participant would only be eligible to receive an “immediate annuity” if, at the time he or she files for retirement benefits, he or she has attained the minimum retirement age (i.e. the NRA) and satisfied the number of service years required for vesting. A participant that terminates without having satisfied these criteria would not have an immediate right to an annuity and would not qualify for health insurance.
longer receiving an annuity, he or she would no longer meet the statutory definition of “community college benefit recipient”. There is no requirement that the annuity be lifetime, but if the annuity terminates so too would the retiree's eligibility for health insurance benefits.

A State retiree must retire “on an immediate annuity” to be eligible for health insurance benefits. As described above, the original requirement that a State retiree be “receiving a retirement annuity” (which is comparable to the requirement applicable to community college retirees) was struck by Public Act 90-448. The law is less clear now about what happens if the annuity payments end. The change made by Public Act 90-448 could support the argument that benefits are intended to continue even after termination of the annuity payments (so long as the employee continues to pay any contribution required of him or her to the cost of the benefits). The statute is clearer in other circumstances when a retiree may continue to receive insurance benefits without a current annuity (e.g. a person who receives an accelerated pension benefit under Section 15-185.5 maintains eligibility as an “annuitant”).

Questions Presented and Brief Answers

Would an SMP participant’s election to receive benefits under the Lifetime Drawdown Option or the Drawdown and Longevity Annuity Option prevent that participant from receiving health insurance coverage under the State Employees Group insurance Act of 1971?

State Retirees: To be eligible for health insurance benefits, a State retiree must retire on or after reaching the Normal Retirement Age. The law does not appear to deny health insurance benefits to State retirees who elect to receive only installment payments, such as a systematic withdrawal of his or her account balance under the Lifetime Drawdown Option, or installment payments combined with a lifetime guarantee or longevity annuity under the Drawdown and Longevity Annuity Option, as long as the benefit is an “annuity”. The statutory definition of “annuity” is broadly defined to include any series of monthly payments, whether for a term or for life. It would be reasonable for SURS to take the position that a participant who elects either the Lifetime Drawdown Option or the Drawdown and Longevity Annuity Option satisfies the definition of an annuitant, provided that the individual meets all other applicable requirements of the State Employees Group Insurance Act. But the law is less clear about whether a State retiree could maintain eligibility for health insurance benefits if the annuity payments terminate before the retiree's death.

Community College Retirees: To be eligible for health insurance benefits, a community college retiree must be “receiving . . . a monthly retirement benefit”. There is no statutory requirement that the retiree have reached the Normal Retirement Age, although health insurance benefits would not commence until annuity benefits commence. The law does not appear to deny health insurance benefits to community college retirees who elect only a partial annuity or installment payments, such as those under the Lifetime Drawdown Option or the Drawdown and Longevity Annuity Option, as long as the benefit is an “annuity”. If a retiree's annuity payments terminate, his or her eligibility for health insurance benefits would also terminate.