

STATE OF MICHIGAN  
DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET  
PROCUREMENT  
P.O. BOX 30026, LANSING, MI 48909  
OR  
530 W. ALLEGAN, LANSING, MI 48933

**CHANGE NOTICE NO. 4**  
to  
**CONTRACT NO. 071B7200333**  
between  
**THE STATE OF MICHIGAN**  
and

NAME & ADDRESS OF CONTRACTOR:	PRIMARY CONTACT	EMAIL
ING Institutional Plan Services, LLC 30 Braintree Hill Office Park, 3S-368 Braintree, MA 02184	Brian Merrick	brian.merrick@us.ing.com
	TELEPHONE	CONTRACTOR #, MAIL CODE
	(781) 796-9268	

STATE CONTACTS	AGENCY	NAME	PHONE	EMAIL
CONTRACT COMPLIANCE INSPECTOR	DTMB	Kerrie Vanden Bosch	(517) 636-6104	vandenboschk@michigan.gov
BUYER	DTMB	Lance Kingsbury	(517) 241-3768	kingsburyl@michigan.gov

CONTRACT SUMMARY:			
Third Party Administration Services for 401(k) and 457 – Department of Technology, Management and Budget / Office of Retirement Services			
INITIAL EFFECTIVE DATE	INITIAL EXPIRATION DATE	INITIAL AVAILABLE OPTIONS	EXPIRATION DATE BEFORE CHANGE(S) NOTED BELOW
September 5, 2007	September 4, 2012	2, 1 Year Options	September 4, 2013
PAYMENT TERMS	F.O.B	SHIPPED	SHIPPED FROM
N/A	N/A	N/A	N/A
ALTERNATE PAYMENT OPTIONS:			AVAILABLE TO MiDEAL PARTICIPANTS
<input type="checkbox"/> P-card	<input type="checkbox"/> Direct Voucher (DV)	<input type="checkbox"/> Other	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
MINIMUM DELIVERY REQUIREMENTS:			
N/A			

DESCRIPTION OF CHANGE NOTICE:				
EXTEND CONTRACT EXPIRATION DATE	EXERCISE CONTRACT OPTION YEAR(S)	EXTENSION BEYOND CONTRACT OPTION YEARS	LENGTH OF OPTION/EXTENSION	EXPIRATION DATE AFTER CHANGE
<input type="checkbox"/> No <input checked="" type="checkbox"/> Yes	<input checked="" type="checkbox"/>	<input type="checkbox"/>	3 Months, 26 Days	December 31, 2013
VALUE/COST OF CHANGE NOTICE:		ESTIMATED REVISED AGGREGATE CONTRACT VALUE:		
\$0.00		\$83,403,680.00		
Per Agency ITRAC request dated 2/20/13 and vendor approval dated 2/21/13, three months and 26 days of the last option year will be utilized. All other terms, conditions, specifications and pricing remain unchanged.				

STATE OF MICHIGAN  
DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET  
PROCUREMENT  
P.O. BOX 30026, LANSING, MI 48909  
OR  
530 W. ALLEGAN, LANSING, MI 48933

**CHANGE NOTICE NO. 3**  
to  
**CONTRACT NO. 071B7200333**  
between  
**THE STATE OF MICHIGAN**  
and

NAME & ADDRESS OF CONTRACTOR:	PRIMARY CONTACT	EMAIL
ING Institutional Plan Services, LLC 30 Braintree Hill Office Park, 3S-368 Braintree, MA 02184	Brian Merrick	Brian.merrick@us.ing.com
	TELEPHONE	CONTRACTOR #, MAIL CODE
	781-796-9268	

STATE CONTACTS	AGENCY	NAME	PHONE	EMAIL
CONTRACT COMPLIANCE INSPECTOR	DTMB	Kerri Vanden Bosch	517-636-6104	<a href="mailto:vandenboschk@michigan.gov">vandenboschk@michigan.gov</a>
BUYER	DTMB	Lance Kingsbury	517-241-3768	<a href="mailto:kingsburyl@michigan.gov">kingsburyl@michigan.gov</a>

CONTRACT SUMMARY:			
DESCRIPTION: Third Party Administration (TPA) Services for 401(k) and 457 – DTMB			
INITIAL EFFECTIVE DATE	INITIAL EXPIRATION DATE	INITIAL AVAILABLE OPTIONS	EXPIRATION DATE BEFORE CHANGE(S) NOTED BELOW
September 5, 2007	September 4, 2012	2, 1 Year Options	September 4, 2013
PAYMENT TERMS	F.O.B	SHIPPED	SHIPPED FROM
N/A	N/A	N/A	N/A
ALTERNATE PAYMENT OPTIONS:			AVAILABLE TO MiDEAL PARTICIPANTS
<input type="checkbox"/> P-card <input type="checkbox"/> Direct Voucher (DV) <input type="checkbox"/> Other			<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
MINIMUM DELIVERY REQUIREMENTS:			
N/A			

DESCRIPTION OF CHANGE NOTICE:				
EXTEND CONTRACT EXPIRATION DATE	EXERCISE CONTRACT OPTION YEAR(S)	EXTENSION BEYOND CONTRACT OPTION YEARS	LENGTH OF OPTION/EXTENSION	EXPIRATION DATE AFTER CHANGE
<input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	<input type="checkbox"/>	<input type="checkbox"/>		September 4, 2013
VALUE/COST OF CHANGE NOTICE:		ESTIMATED AGGREGATE CONTRACT VALUE REMAINS:		
\$0.00		\$83,403,680.00		
Effective immediately, the following Statement of Work (SOW) is hereby incorporated into the Contract.				
All other terms, conditions, specifications, and pricing remain the same.				
Per agency request and DTMB Procurement approval.				

## **Article 1 – Statement of Work (SOW)**

### **1.010 Project Identification**

#### **1.011 Project Request**

This is a Statement of Work for the DTMB Office of Retirement Services (ORS). This SOW represents the estimated costs to the plan that the Contractor will bill the State for implementing the changes described within, and the assumptions supporting these changes.

Payment of this additional amount of \$488,650.00 will be made in two installments, as the work is completed, as determined by ORS.

#### **1.012 Background**

Four current projects driven by recent legislation or State initiatives:

1. SERS Reform – Phase 1
2. SERS Reform – Phase 2
3. State Troopers Hybrid Plan
4. Education Achievement Authority Plan
5. MPSERS

- Each of these projects requires implementation and communications resources by the Contractor and the State.
- The Contractor has estimated the cost to implement and communicate each of these initiatives.
- The State has asked the Contractor to make a financial commitment to help resource these projects.

### **1.020 Scope of Work and Deliverables**

#### **1.021 In Scope**

##### **SERS Reform – Phase 1 Implementation**

###### **Implementation:**

- Added four new sources –
  - 401(k): PT Health, Health Match, Roth Health
  - 457: PT Health
- New feedback for new money types
- Incorporated new retirement codes
- Completed for January 20, 2013, initial feedback

##### **SERS Reform – Phase 2 Implementation**

###### **Implementation:**

- Created new 457 Monetized Health Payment source
- Revise match logic of feedback program (Spirit of Match) – target May 31<sup>st</sup>
- Adding automatic enrollment features to demographic – target May 31<sup>st</sup> for automation (currently managed manually)
- Process “make-up” match on 457 plan contributions – target July
- Added coding to identify and accept State Troopers; modified feedback program
- Update matching calculations into Financial Engines program

##### **State Troopers Hybrid Plan Implementation**

###### **Implementation:**

- Added coding to identify and accept State Troopers; modified feedback program
- Contributions will begin into the State 401(k) Plan effective June 10<sup>th</sup>
- Separate matching program has been coded in the feedback file
- Troopers will be tracked **within the SOM 401(k) Plan** with new retirement and location codes
- Anticipate 100-200 new participants per year

### **EAA Plan Implementation**

#### **Implementation:**

- 12 accounts added to Pension Plus Plan
- Contributions started February 24, 2012
- Expansion planned for August

#### **Assumptions:**

- Use existing Michigan plans "region"
- EAA 457 and 401(a) plan structure
- Payroll feed to and from Clarety
- Household statements – State will still print and mail
- Participants will be "parked" in MPSERS Pension Plus until new plans are built

### **EAA Plan Ongoing Administration**

#### **Pricing Assumptions:**

- No guarantee beyond September 2013
- 1,000 participants by year end 2012; add approximately 2,000 per year for next four years
- Semi-annual statements
- Monthly contributions through Clarety
- One new Contractor plan consultant
- No new field education
- Separate plans from State 457 and 401(k)
- Separate content for web; education materials
- Separate financial reporting
- Same investment lineup as 401(k) and 457 plans
- Assets included in existing State 401(k) and 457 custody accounts

### **MPSERS Pension Reform**

#### **Implementation:**

- Add four new sources to existing MPSERS plans (see appendices B1 through B5)
  - o One to the 457 plan and three to the 401(a) plan
- Modify the existing incoming payroll feeds to accommodate the new contribution sources, benefit structures, and healthcare codes
  - o Includes both a temporary and long-term structure to accelerate posting of September and October contributions
- Includes ability for existing DB members to make employee contributions
- Display new sources on participant web, statements, confirms
- Update all existing reporting with new sources
- Update all participant communications materials for the MPSERS 457 and 401(a) plans

#### **Communications:**

- Project Management
- Forms
  - o Assumes no change to existing forms
- Rebranding of Pension Plus
- Plan Highlights and FAQs
  - o (Four versions based on hire date)
  - o Design and print upon request
  - o Inserted into Welcome Guide
- Custom web page Updates and Redesign
- Welcome Guide (new employees)
  - o Redesign and updates
  - o Initial launch
  - o Postage and print of postcards assumes a 10% election based on 200,000
- Participant website
  - o Purchase graphics for messaging and redesign
- Ad hoc mailing
  - o None – assumes all mailings to existing MPSERS employees will be done by the State
- Newsletter

Assumes use of existing State or Pension Plus newsletters

- Payout/Distribution Guide
  - o Design and creation

**Pricing Assumptions:**

- No changes to the existing MPSERS feedback (from the Contractor to the State)
- The State or Employers will break out employee before tax, employer match, personal health care, personal health care match, and employer mandatory contributions
- The Contractor must add a rollover source to the existing MPSERS 401(a) plan
- State will design, draft, and distribute communications regarding the options to existing DB members
- Employers will send demographic information for existing DB members who wish to make employee contributions
- No change to current MPSERS participant fee structure

**1.022 Work and Deliverable**

Contractor must provide Deliverables/Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

**SERS Reform – Phase 1 Implementation**

No additional ongoing administration fee requirement.

Investment revenue will be retained by the Contractor; four bps to be returned to Michigan.

**SERS Reform – Phase 2 Implementation**

No additional ongoing administration fee requirement.

Investment revenue will be retained by the Contractor; four bps to be returned to Michigan.

**State Troopers Hybrid Plan Implementation**

No additional ongoing administration fee requirement.

Investment revenue will be retained by the Contractor; four bps to be returned to Michigan.

**EAA Plan Ongoing Administration**

The Contractor must assess a quarterly fee of \$13.75 for all participants with a balance of at least \$13.75.

The Contractor will keep all investment revenue generated by the EAA plan through September 2013 as the Contractor revenue, up to a cap of \$25,000.

**MPSERS Pension Reform**

Changes will be required to the data transmissions between the Contractor and the State.

New sources will need to be added.

Participant communication materials will need to be added.

No change to current MPSERS participant fee structure.

**1.060 Proposal Pricing**

**1.061 Proposal Pricing**

Payment of this additional amount of \$488,650.00 will be made in two installments, as the work is completed, as determined by ORS.

STATE OF MICHIGAN  
DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET      February 14, 2012  
PROCUREMENT  
P.O. BOX 30026, LANSING, MI 48909  
OR  
530 W. ALLEGAN, LANSING, MI 48933

**CHANGE NOTICE NO. 2**  
**TO**  
**CONTRACT NO. 071B7200333**  
**between**  
**THE STATE OF MICHIGAN**  
**and**

NAME & ADDRESS OF VENDOR  <b>ING Institutional Plan Services, LLC</b> <b>1 Heritage Drive</b> <b>North Quincy, MA 02171</b>  <b>wendy.youngcarter@us.ing.com</b>		TELEPHONE (703) 251-4655 <b>Wendy Young-Carter</b>
		VENDOR NUMBER/MAIL CODE
		BUYER/CA (517) 241-3768 <b>Lance Kingsbury</b>
Contract Compliance Inspector: Kerri Vanden Bosch (517) 636-6104 <b>Third Party Administration (TPA) Services for 401(k) and 457 – DTMB</b>		
CONTRACT PERIOD:                      From: <b>September 5, 2007</b> To: <b>September 4, 2013</b>		
TERMS  <b>N/A</b>	SHIPMENT  <b>N/A</b>	
F.O.B.  <b>N/A</b>	SHIPPED FROM  <b>N/A</b>	
MINIMUM DELIVERY REQUIREMENTS  <b>N/A</b>		

**NATURE OF CHANGE (S):**

Effective September 5, 2012, this contract is hereby EXTENDED until September 4, 2013.

All other terms, conditions, specifications and pricing remain unchanged.

**AUTHORITY/REASON:**

Per agency request and DTMB Procurement approval.

**TOTAL ESTIMATED CONTRACT VALUE:      \$83,403,680.00**

STATE OF MICHIGAN  
DEPARTMENT OF TECHNOLOGY, MANAGEMENT AND BUDGET December 29, 2010  
PROCUREMENT & REAL ESTATE SERVICES ADMINISTRATION  
P.O. BOX 30026, LANSING, MI 48909  
OR  
530 W. ALLEGAN, LANSING, MI 48933

**CHANGE NOTICE NO. 1**  
**TO**  
**CONTRACT NO. 071B7200333**  
**between**  
**THE STATE OF MICHIGAN**  
**and**

NAME & ADDRESS OF VENDOR  <b>ING Institutional Plan Services, LLC</b> <b>1 Heritage Drive</b> <b>North Quincy, MA 02171</b>  <b>wendy.youngcarter@us.ing.com</b>		TELEPHONE (703) 251-4655 <b>Wendy Young-Carter</b>
		VENDOR NUMBER/MAIL CODE
		BUYER/CA (517) 241-3768 <b>Lance Kingsbury</b>
Contract Compliance Inspector: Kerri Vanden Bosch (517) 636-6104 <b>Third Party Administration (TPA) Services for 401(k) and 457 – Dept. of Management &amp; Budget</b>		
CONTRACT PERIOD: From: <b>September 5, 2007</b> To: <b>September 4, 2012</b>		
TERMS <b>N/A</b>		SHIPMENT <b>N/A</b>
F.O.B. <b>N/A</b>		SHIPPED FROM <b>N/A</b>
MINIMUM DELIVERY REQUIREMENTS <b>N/A</b>		

**NATURE OF CHANGE (S):**

Effective immediately, the attached changes are hereby incorporated into this contract.

Also, the contract compliance inspector has been changed to Kerri Vander Bosch and the buyer has been changed to Lance Kingsbury.

All other terms, conditions, specifications and pricing remain unchanged.

**AUTHORITY/REASON:**

Per agency and vendor agreement and DTMB/Procurement & Real Estate Services Administration.

**TOTAL ESTIMATED CONTRACT VALUE: \$83,403,680.00**

**FIRST AMENDMENT  
TO CONTRACT NO. 071B7200333  
BETWEEN  
THE STATE OF MICHIGAN  
AND  
ING INSTITUTIONAL PLAN SERVICES, LLC**

**WHEREAS**, ING Institutional Plan Services, LLC (formerly known as CitiStreet LLC) and the State of Michigan (the "State") have previously entered into a Contract to provide recordkeeping and other services for the 401(k) and 457 Plans sponsored by the State dated September 5, 2007, (the "Contract"); and

**WHEREAS**, as a result in the change of control, Citistreet LLC was renamed ING Institutional Plan Services, LLC ("ING"), a Delaware, limited liability company;

**WHEREAS**, pursuant to Article 2 of the Contract "General Terms and Conditions," the State and ING have agreed that ING will perform services recordkeeping and other services to the Michigan Pension Plus Plan (the "Plus Plan") and that the State will compensate ING for such additional services;

**WHEREAS**, the State and ING desire to amend the Contract to reflect such additional services; and

**WHEREAS**, pursuant to Article 2.293 of the Contract "Entire Contract; Order of Precedence," such amendment must be in writing.

**NOW THEREFORE**, the State and ING agree to amend the Contract effective October 1, 2010 as follows:

1. All references to "CitiStreet" and/or "CitiStreet LLC" shall be deleted and replaced with "ING" and/or "ING Institutional Plan Services, LLC" respectively.
2. Article 1.104 of the Contract "Work and Deliverables" is hereby amended by adding to the end of the said section the language contained in the "State of Michigan – Pension Plus Plan Plan Provisions and Service document ("PPSR")."The PPSR is attached hereto and incorporated herein by reference as "Exhibit A" to this amendment.
3. Article 1.601 "Compensation and Payment" of the Contract is amended by adding Article 1, Attachment B, "Pricing for the State of Michigan – Pension Plus Plan," which is attached hereto and incorporated herein by reference as "Exhibit B" to this amendment.
4. Except as otherwise provided herein, all other terms and conditions of the Contract, as amended, will remain in full force and effect.





## **EXHIBIT A**

# **STATE OF MICHIGAN – PENSION PLUS PLAN PLAN PROVISIONS AND SERVICE DOCUMENT (PPSR) SERVICE SELECTION DOCUMENT**

**DECEMBER 15, 2010**

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**Purpose of Document:**

The document will contain the plan provision variables that will be established for new client projects.

<b>SERVICE SELECTION DOCUMENT</b>	
<b><u>CLIENT INFORMATION</u></b>	
142.Client Name	State of Michigan
143.Plan Name – LINE 1	MPSERS Pension Plus Plan
144.Number of Plans (separate SSD for each plan)	1
145.OMNI Plan Number(s)	640003
146.Plan Type	457 Plan/401(a) Plan
147.Services to be Provided	Custodial Services Communications Enrollment Meetings ING Advisor Service Self-Directed Brokerage
<b><u>GENERAL INFORMATION</u></b>	
148.Plan Year End	12/31
149.Number of Plans maintain by ING	3 plans within the ING recordkeeping system; 2 plans as defined by the IRS.
150.Are there any plan amendments required to address any ING's plan features? If so, explain.	No. As of 12/13/2010, needed amendments are already completed.
<b><u>CLIENT CONTACT INFORMATION</u></b>	
151.Main Project contact	John Donovan
152.Additional Project contact	Katelyn Henika
<b><u>ING CONTACT INFORMATION</u></b>	
153.Project Manager	Maggie Shen
154.Business Analyst	Liz Gruszka
155.Implementation Manager	John Morrissey
156.Relationship Manager	Carol Cann
157.Operations Manager	Jenna Strickland
158.Communications Manager	Courtney O'Regan
<b><u>WEBSITE/CONTACT CENTER/IVR</u></b>	
159.Plan Website URL:	Same as the existing 457 plan
160.Web/Contact Center/IVR Information Line Name	Same as the existing 457 plan
161.800 (Toll-Free) Number for client	Same as the existing 457 plan
162.Contact Center TDD # for Hearing Impaired	Same as the existing 457 plan
163.Contact Center number for Brokerage account	Same as the existing 457 plan

SERVICE SELECTION DOCUMENT			
164. Should all participants with email address default to Go Green?		Same as the existing 457 plan	
165. Go Green web page will continue to pop up every XX days until participant has elected green.		Same as the existing 457 plan	
166. Fund Performance periods to display on Web and IVR		Same as the existing 457 plan	
167. Should the Website/IVR display/voice fund prices?		Same as the existing 457 plan	
168. Should historical fund prices on the web?		Same as the existing 457 plan	
169. Should 2 digit or 6 digits voice on the IVR?		Same as the existing 457 plan	
170. Indicate the plan order	<b>Plan names</b>		<b>Plan #</b>
	457 Plan		640001
	401(k)		640002
	Pension Plus Plan		640003
171. Will this plan use the Distribution Specialist option?		Same as the existing 457 plan	
172. Will CCC's (Customer Contact Center) need to be available for a period during the transition?		N/A – Start up plan	
173. If yes to previous question, indicate the period the CCC's will start inquiry period?		N/A	
174. Will there be a message required on the IVR prior to live date? If yes, indicate message		No	
175. What is the client's time zone? (For Web/IVR: what time zone will participants see and hear?)		Same as the existing 457 plan	
176. What is the CCC start time?		Same as the existing 457 plan	
177. What is the CCC end time?		Same as the existing 457 plan	
178. Are expanded hours allowed for CCC?		No	
179. If the caller needs to be referred back to the client, who should he/she be referred to:		Same as the existing 457 plan	
180. Should website display the participants address?		Same as the existing 457 plan	
<b><u>VESTING</u></b>			
181. Will this plan display/voice participants vested balance?		Yes	
182. Will this plan display the vested amount by source?		Yes	
183. Choose the applicable vesting options in the plan:	Graded vesting		X
184. Please assign a vesting schedule from below to the adjacent vesting table:	<b>Source Code</b>	<b>Source Name</b>	<b>Vesting schedule #</b>
	D, F	Employer Match	1
185. What is the vesting percentage lower limit? (Enter between 0 – 100%)		0%	
186. What is the vested percentage upper limit?		100%	

SERVICE SELECTION DOCUMENT		
	<b>Years</b>	<b>Percentage vested</b>
	0 to <2	0%
	2 to <3	50%
	3 to <4	75%
187. Enter vesting schedule 1	4 and >4	100%
188. Indicate all sources (codes and name) that follow schedule 1		D, F
189. If there are any vesting exceptions or special processing required, describe here:		No
190. Calculation of service for vesting will be computed as follows:		Service Credit in number of years will be provided by Michigan
191. What circumstances result in 100% vesting?		None will result in immediate 100% vesting, all participants follow the same schedule (100% vesting after 4 years)
192. What is Normal Retirement Age for the plan?		Age 60 plus at least 10 years of service, for Pension Plus Plan members.
193. Does the plan allow for early retirement?		No
194. If yes, what is early retirement age?		N/A
195. Identify any special vesting considerations not identified above:		None
196. How will plan forfeiture be used by the plan?		Same as existing 401(k) plan
197. How is vesting handled for Rehires?		See 49
198. Forfeiture of unvested ER balances occurs at the earlier of date of distribution or a 5 (consecutive) year break in service. If other, please explain		Same as existing 401(k) plan
199. Plan Forfeiture Investment Options are:		Same as existing 401(k) plan
200. If a participant returns to service and is entitled to a reinstatement of forfeiture, is the participant required to repay prior distributions before forfeiture is reinstated? If other, please explain		Same as existing 401(k) plan
<b>START UP ACTIVITIES</b>		
<b>PASSWORDS</b>		
201. Password format will be 6 digit numeric?  If no, what format will be password be?		Same as the existing 457 plan
202. PINs will be generated and mailed:		All new accounts when they are first established
203. Will participants be forced to change PIN when they first log in?		Same as the existing 457 plan
204. Will participants have the option of setting up an 8 - 20 character User Name to be used for login in place of the SSN?		Same as the existing 457 plan
205. Will participants have the ability to establish password reset capability by choosing 3 security questions?		Same as the existing 457 plan
206. Will participants be able to utilize the Alternate Security process without a PIN by providing SSN, address, and Date of Birth? (Any transaction that does not produce a check)		Same as the existing 457 plan

SERVICE SELECTION DOCUMENT	
<b>PLAN ELIGIBILITY</b>	
207. Plan eligibility will be completed by:	Client
208. Will ING maintain all employees or only eligible employees on the record keeping system?	All Eligible employees (Client tracks Eligibility)
209. What method is used to determine plan eligibility?	Immediate Eligibility
210. What is the frequency of enrollment once a participant is eligible?	Immediately. ING will set up an account when employee information is received.
211. Eligibility age for full-time employees:	N/A – only eligible employees will be sent to ING.
<b>ENROLLMENT</b>	
212. Enrollment kits for newly eligible employees will be distributed by:	ING, upon receiving new hire information on data feed
213. Does this plan allow enrollment on Front-end applications?	No
214. Enrollments will be processed via:	Client sends the eligibility information to ING, ING establishes the account and sends a PIN and welcome letter.
<b>AUTOMATIC ENROLLMENT</b>	
215. Will the Start date be the Auto-Enroll date or will the Participant initiate?	N/A – Client starts automatic deduction for the Pension Plus plan
216. Automatic Enrollment method:	Auto-enrollment (automatic rate escalator TBD)
217. Automatic Enrollment provisions	Rate is defined by statute, currently 2% pre-tax
218. Participant Start Date Based On: (select one)	Hire Date
219. Opt Out Period:	Participants will opt out of the deferral by contacting ING and changing their deferral deduction. No refund will be allowed.
220. Default Investment Fund(s):	Same as the existing 457Plan
221. Other notes about Automatic Enrollment features	
<b>REHIRED EMPLOYEE PROCESS</b>	
222. What is the rehire process?	Terminated participants will not have their deferral % zeroed out. If a person is rehired, he is automatically started at the rate defined by statute, currently 2% of payroll.
223. If eligibility occurs after waiting period, what is waiting period:	Immediate eligibility
224. Will recalculated date of Hire be sent with payroll?	No, the initial Date of Hire stays in the system. ORS to provide vesting information.
<b>CENSUS/DEMOGRAPHIC INTERFACE</b>	
225. How will active participant data be sent to ING?	FTP transmission
226. How will census data for the Separated Employees, Beneficiaries, and Alternate Payees be received by ING?	Non-active participants may change their address on the participant web site, or the form available for address change.
<b>CONTRIBUTION RATES</b>	
<b>CONTRIBUTION RATE CHANGE OVERVIEW</b>	
227. Are Pre-Tax contribution rates stored in dollars (\$) or percent (%)?	This is defined by the plan administrator. Currently, for the Pension Plus Plan, they are stored in percentages (%) .

SERVICE SELECTION DOCUMENT	
228. How often will participants be permitted to change their employee contribution percentages/dollar amounts at ING?	Daily
229. Will ING feed back Contribution rates to the client payroll?	Yes
230. On what frequency will the feedback file/report be sent?	Weekly
231. If contribution is received for a person with no investment elections on file, is the contribution invested to the plan default fund (all sources)?	Yes
232. What is the Contribution percentage increment? (0-99%)	1%
233. What is the default investment election?	Same as existing 457 plan
234. Will rates be zeroed out upon receipt of Term info?	No
235. Will contribution rates be suspended when participant takes a hardship withdrawal?  Note: For further suspension information see the Hardship suspension section.	Yes – 6 months
<b>CONTRIBUTION RATE CHANGE – PRE TAX</b>	
236. What is the maximum and minimum Pre-tax deferral % allowed for all participants?	Minimum: 1% Maximum: 99%
237. Will any source grouping be required on the front end for deferral rates?	Yes, A & S
<b>CATCH UP CONTRIBUTIONS</b>	
238. Will Catch-Up Contribution rates be reflected on the front end?	No. Participants who is (or will be) 50 or older in the current calendar year, will be allowed to contribute the additional \$5,500 (or subsequent adjusted amount).
<b>CONTRIBUTION RATE ESCLATOR</b>	
239. Is participant directed Contribution Rate Escalator offered by the plan?	TBD
<b>RETURN OF EXCESS BEFORE TAX CONTRIBUTIONS</b>	
240. Will the participant be able to choose Return of Excess contributions method on PWeb?	No, Not Applicable
<b>ROTH CONTRIBUTIONS</b>	
241. Does the plan include Roth 401(k) source?	N/A Roth 457 plan TBD
<b>MANAGEMENT INVESTMENTS</b>	
242. Does the plan offer the Reallocation transaction?	Same as the existing 457 plan
243. Is the Reallocation transaction processed pro rata from all available money sources (ING Best Practice)? Is "By Source" functionality required?	Same as the existing 457 plan
244. Is the Fund Transfer transaction processed pro rata from all available money sources (ING Best Practice)?	Same as the existing 457 plan
245. Will the plan allow transfers and reallocations on line?	Same as the existing 457 plan
246. What is the reallocation percent increment?	Same as the existing 457 plan

SERVICE SELECTION DOCUMENT	
247. Will the transfer amount be displayed in dollars, percent, or both?	Same as the existing 457 plan
Note: Any frozen funds are not offered with reallocation transactions.	
<b>EQUITY WASH PROVISIONS</b>	
248. Does this plan require equity wash restrictions?	Same as the existing 457 plan
249. Does the plan require equity wash restrictions for reallocation transfers?	Same as the existing 457 plan
250. If yes, which fund group should be limited by the maximum percentage allowed for reallocations?	Same as the existing 457 plan
251. What is the competing fund?	Same as the existing 457 plan
<b>AUTOMATIC ACCOUNT REBALANCE</b>	
252. Will the plan offer Automatic Rebalance feature?	Same as the existing 457 plan
253. Is the first Rebalance date assigned based on the chosen frequency (ING Best Practice) or is participant allowed to choose a date for first Rebalance?	Same as the existing 457 plan
254. What frequencies will be offered to participants for Automatic Rebalance under the plan rules?	Same as the existing 457 plan
255. ING will mail a reminder to participants 14 - 21 days prior to the Automatic Rebalance	Same as the existing 457 plan
<b>INVESTMENT ELECTIONS</b>	
256. Are investment elections applicable to all sources of contributions (ING Best Practice) or is by source functionality required?	Same as the existing 457 plan
257. What % increments are available for investment elections?	1% increments
258. How will participants update their investment elections?	Same as the existing 457 plan
259. Which fund group(s) should be excluded from the list of available investment elections?	Same as the existing 457 plan
260. Which source(s) require selection of investment elections?	S
261. Frequency of investment election changes per calendar period:	Daily
262. Will plan allow investment election changes online?	Yes
263. Will the plan offer the Composite transaction which allows an Investment Election transaction and a Reallocation transaction to be completed at the same time for the same fund allocation?	Same as the existing 457 plan
264. If no investment elections are on file what fund(s) will be the plan default fund (s) for contributions?	Target Retirement Funds based upon Date of Birth
<b>ING ADVISOR SERVICES</b>	
265. Does the plan offer ING Advisor Services? (If Plan does not offer Advice, select No for the remaining questions in this section)	Yes
266. Does the plan offer Advice?	Same as the existing 457 plan
267. Should the plan identify Advice accounts on the Front-End?	Same as the existing 457 plan
268. Can participants override the recommended allocation for Financial Engines?	Same as the existing 457 plan
269. Can participants override the recommended reallocation percentages?	Same as the existing 457 plan



SERVICE SELECTION DOCUMENT	
270. Can participants override suggested contribution deferral rates?	Same as the existing 457 plan
271. Is the participant allowed to change election contributions percents?	Same as the existing 457 plan
BENEFICIARIES	
272. Will the plan allow Beneficiaries to be chosen and updated on line?	Same as the existing 457 plan
273. Will the plan enforce spousal rules for beneficiaries?	Yes
274. Should participants see the link to choose a beneficiary at enrollment?	Same as the existing 457 plan
275. Will a beneficiary form be available on the web?	Same as the existing 457 plan
276. Will Beneficiary forms be returned to ING or the client?	Same as the existing 457 plan
277. Will the client send marital status with payroll files?	No
278. Will marital status for beneficiary on line feature be controlled by client payroll files or will participant elect their marital status on line?	Website
TERMINATED ADDRESS CHANGES	
279. Will Terminated Address change be available on the website?	Yes
BANKING INFORMATION	
280. Will the plan display/voice ACH banking info on Web?	Same as the existing 457 plan
281. How will this plan display ACH account information on Front-end applications?	Same as the existing 457 plan
282. Can participant update ACH banking info on the Web?	Same as the existing 457 plan
Note: ACH banking is not offered through the Contact Center.	
LOAN SERVICES AND PROVISIONS	
283. Does the plan offer Loans?	Loans are not initially permitted but ING will add loans in 2012 in the 457 plan only at its own cost and expense. Participants will be limited to 1 loan at any one time.
WITHDRAWALS AND DISTRIBUTION SERVICES AND PROVISIONS	
WITHDRAWAL OVERVIEW	
284. Are withdrawals, and terminations available via ACH?	Same as the existing 457 plan
285. Can participant withdrawals be requested on the PWeb, IVR and PSR?	Same as the existing 457 plan
286. Can participants request withdrawal proceeds to be delivered via overnight mail?	Same as the existing 457 plan
287. The following in-service withdrawal types are permitted in the plan:	In-service - after age 70 ½ for 457 plan In-service – after age 59 1/2 for 401k plan on vested amounts Hardship Withdrawal for 401k plan on vested amounts Unforeseen Emergency Withdrawal for 457 plan Rollover Accounts (but not including any direct transfers, such as prior DB transfer),
288. The following distribution types are permitted in the plan:	Lump Sum Installment Partial Distribution Deferred Payout

SERVICE SELECTION DOCUMENT	
289. Are there any sources in the plan that are restricted from any of the In Service Withdrawal types?	Yes – Non-vested Employer Match money in 401k plan. (An in-service hardship withdrawal is also subject to the provisions in question 160). Rollover that includes any direct transfers, such as prior DB transfer),
290. Are there any funds in the plan that are restricted from any of the In Service Withdrawal types?	Same as the existing 457 plan
291. Are there any participants who require spousal consent to request a withdrawal?	No
292. Is there a participant fee charged for taking an In Service withdrawal?	Same as the existing 457 plan
293. Should the plan show a link to the Special Tax Notice on the PWeb?	Yes
<b>HARDSHIP WITHDRAWALS FOR UNFORESEEN EMERGENCY</b>	
294. Are Hardship Withdrawals allowed in the plan?	Yes
295. If Yes, which rules apply?	Same as the existing 457 plan or 401k plan
296. Who will review and approve Hardship Withdrawal applications?	Same as the existing 457 plan or 401k plan
297. Are contributions suspended when a participant takes a Hardship Withdrawal?	Yes
298. If Yes, how long is the suspension?	6 months
299. Which contribution sources are suspended when a Hardship Withdrawal is taken?	Both Employee and Employer
300. Once the suspension is over, ING can either automatically restart the contribution rate by feeding it back to the client payroll, or send notification that the suspension is over to the participant so that the participant can restart the contribution rate	Restart the contribution rate by feeding it back to the client payroll.
301. Is there a source Hierarchy to be used for Hardship Withdrawals?	Source Hierarchy Rollover (but not including any direct transfers, such as prior DB transfer), Employee Contributions (limited in 401k plan to principle amount of elective contributions), Vested Employer Contributions in 401k plan
302. Is there a minimum withdrawal amount for this withdrawal type?	No
303. Is there a limit on the frequency of this withdrawal type?	Same as the existing 457 plan or 401k plan
304. If yes, what is the limit?	Same as the existing 457 plan or 401k plan
305. Is there a minimum # of days that must elapse between taking these withdrawals?	Same as the existing 457 plan or 401k plan
306. If Yes, how many days?	Same as the existing 457 plan or 401k plan
307. Is the participant required to exhaust all other available withdrawal types prior to being eligible for a Hardship Withdrawal?	Yes – If over 70 ½ (457 plan) or over 59 1/2 (401k plan), participant is required to take an in-service withdrawal
308. Is the participant required to exhaust any available loans prior to being eligible for a Hardship Withdrawal?	Yes
<b>LUMP SUM DISTRIBUTIONS</b>	
309. Can participants choose to receive the proceeds of the Lump Sum termination distribution via ACH?	Same as the existing 457 plan or 401k plan

SERVICE SELECTION DOCUMENT	
310. Will the available amount for Lump Sum distributions be shown/ voiced on the PWeb and IVR?	Same as the existing 457 plan or 401k plan
311. Will the terminated Lump Sum distribution be available via the PWeb, IVR and PSR?	Same as the existing 457 plan or 401k plan
312. Are there any sources in the plan that are restricted from any of the Lump Sum Withdrawal types?	Yes – Non-vested Employer Match money same as in the 401k plan
313. Are there any funds in the plan that are restricted from any of the Lump Sum Withdrawal types?	Same as the existing 457 plan or 401k plan
314. If yes, indicate withdrawal and restricted funds	Same as the existing 457 plan or 401k plan
315. Are there any participants who require spousal consent to request a Lump Sum distribution?	No
316. How many days after the participant's termination date should the termination withdrawal be offered?	Same as the existing 457 plan or 401k plan
317. How many days after the participant's termination date should the termination withdrawal NOT be offered?	Same as the existing 457 plan or 401k plan
318. Does this termination withdrawal type allow installment and/or deferral elections?	Same as the existing 457 plan or 401k plan
319. If yes, indicate Type	Same as the existing 457 plan or 401k plan
320. If installments are allowed, should participants only be allowed to enter a dollar amount?	Same as the existing 457 plan or 401k plan
321. Will the plan automatically pay out vested balances < \$1,000 after termination?	The plan pays out vested balances < \$500 120 days after termination.
322. If yes, how long after termination will the balance be paid out?	N/A
<b>PARTIAL TERMINATION DISTRIBUTIONS</b>	
323. Is the Partial Lump Sum allowed in the plan?	Yes
324. Can participants choose to receive the proceeds of the Partial Termination distribution via ACH?	Same as the existing 457 plan or 401k plan
325. Will the available amount for the Partial distributions be shown/ voiced on the PWeb and IVR?	Same as the existing 457 plan or 401k plan
326. Will the terminated Partial distribution be available via the PWeb, IVR and PSR?	Same as the existing 457 plan or 401k plan
327. Are there any sources in the plan that are restricted from the Partial terminated distribution?	Yes – Non-vested Employer Match money in 401k plan.
328. Are there any funds in the plan that are restricted from any of the Lump Sum Withdrawal types?	Same as the existing 457 plan or 401k plan
329. If yes, indicate withdrawal and restricted funds	Same as the existing 457 plan or 401k plan
330. Are there any participants who require spousal consent to request a Lump Sum distribution?	No
331. Is there a minimum withdrawal amount for this distribution type?	Same as the existing 457 plan or 401k plan
332. If Yes, how much?	Same as the existing 457 plan or 401k plan
333. Is there a limit on the frequency of this distribution type?	Same as the existing 457 plan or 401k plan

SERVICE SELECTION DOCUMENT																					
334.If yes, what is the limit?	Same as the existing 457 plan or 401k plan																				
335.Is there a minimum # of days that must elapse between taking these distribution?	Same as the existing 457 plan or 401k plan																				
336.If Yes, how many days?	Same as the existing 457 plan or 401k plan																				
<b>INSTALLMENTS</b>																					
337.Are Installments allowed in the plan?	Yes																				
338.Are participants allowed to defer installment payouts to a later date?	Same as the existing 457 plan or 401k plan																				
339.What options are allowed for Installments?	Same as the existing 457 plan or 401k plan																				
340.Is there a minimum # of payments allowed for Installments?	Same as the existing 457 plan or 401k plan																				
341.If yes, what is minimum # of payments?	Same as the existing 457 plan or 401k plan																				
342.Is there a maximum # of payments allowed for Installments?	Same as the existing 457 plan or 401k plan																				
343.If yes, what is maximum # of payments?	Same as the existing 457 plan or 401k plan																				
344.What frequencies are allowed for Installments?	Same as the existing 457 plan or 401k plan																				
345.Are installments available through the CCC application or via form only?	Same as the existing 457 plan or 401k plan																				
346.Are there any sources in the plan that are restricted from Installments?	Yes – Non-vested Employer Match money in 401k plan																				
347.Are there any funds in the plan that are restricted from Installments?	Same as the existing 457 plan or 401k plan																				
348.If yes, indicate withdrawal and restricted funds?	Same as the existing 457 plan or 401k plan																				
349.Are there any participants who require spousal consent to request a withdrawal?	No																				
<b>PLAN AND PARTICIPANT FEES</b>																					
350. Indicate the participant fees?	<table border="0"> <tr> <td>Brokerage Account Fee</td> <td>\$</td> <td>Overnight Fee</td> <td>\$</td> </tr> <tr> <td>Per Participant Fee</td> <td>\$</td> <td></td> <td></td> </tr> <tr> <td>QDRO fee</td> <td>\$</td> <td></td> <td></td> </tr> <tr> <td>Other Fee</td> <td></td> <td></td> <td></td> </tr> <tr> <td colspan="4">Same as existing 457 plan or 401k plan</td> </tr> </table>	Brokerage Account Fee	\$	Overnight Fee	\$	Per Participant Fee	\$			QDRO fee	\$			Other Fee				Same as existing 457 plan or 401k plan			
Brokerage Account Fee	\$	Overnight Fee	\$																		
Per Participant Fee	\$																				
QDRO fee	\$																				
Other Fee																					
Same as existing 457 plan or 401k plan																					
351.Are any fees deducted vs. billed?	<table border="0"> <tr> <td>Loan Fees</td> <td>deducted</td> </tr> <tr> <td>Brokerage Account Fee</td> <td>deducted</td> </tr> <tr> <td>Overnight Fee</td> <td>deducted</td> </tr> <tr> <td>Per Participant Fee</td> <td>deducted</td> </tr> <tr> <td>QDRO fee</td> <td>deducted</td> </tr> <tr> <td>Other Fee</td> <td></td> </tr> </table>	Loan Fees	deducted	Brokerage Account Fee	deducted	Overnight Fee	deducted	Per Participant Fee	deducted	QDRO fee	deducted	Other Fee									
Loan Fees	deducted																				
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QDRO fee	deducted																				
Other Fee																					
352.Fee hierarchy	<b>All funds and sources (prorata) except for the Brokerage window.</b>																				
<b>QUALIFIED DOMESTIC RELATIONS ORDER</b>																					
353.Do you wish to take advantage of ING's QDRO Processing service?	No																				
<b>SELF MANAGED BROKERAGE ACCOUNT</b>																					
354.Will this plan display the Self-Managed Account (SMA) daily balance on Front-end applications?	Yes																				

**SERVICE SELECTION DOCUMENT**

355. Does this plan allow a self-managed account (SMA) link on Front-end applications?	Same as the existing 457 plan or 401k plan
356. What is the minimum required initial transfer amount into the SMA?	Same as the existing 457 plan or 401k plan
357. What is the minimum required subsequent transfer amount into an SMA?	Same as the existing 457 plan or 401k plan
358. What is the maximum percentage of a participant's total balance that can be transferred into the SMA?	Same as the existing 457 plan or 401k plan

**Appendix A****SOURCE HIERACHY TABLE**

359. In-service withdrawal	Rollover (but not including any direct transfers, such as prior DB transfer), Employee Contributions, Vested Employer Contributions. For in-service hardship withdrawals, also see question 219.
360. Hardship withdrawal	Rollover (but not including any direct transfers, such as prior DB transfer), Employee Contributions (limited in 401k plan to principle amount of elective contributions), Vested Employer Contributions in 401k plan
361. Required Minimum Distribution withdrawal	Rollover, Employee Contributions, Vested Employer Contributions in 401k plan
362. Termination Distribution	Rollover, Employee Contributions, Vested Employer Contributions in 401k plan
363. Installment Payment	Rollover, Employee Contributions, Vested Employer Contributions in 401k plan
364. Partial Termination Withdrawal	Rollover, Employee Contributions, Vested Employer Contributions in 401k plan
365. Participant Fee	Rollover, Employee Contributions, Vested Employer Contributions in 401k plan
366. SMA Fee	Rollover, Employee Contributions, Vested Employer Contributions in 401k plan

<b>Appendix B</b>	
<b>INVESTMENT FUND INFORMATION</b>	

Same as the existing 457 Plan or 401k plan

**Appendix C****Source Setup**

Source Identifier	Source Name	Vesting	Withdrawal Type Available	Source Features
<b>Employee Before-tax:</b>				
A	Employee Pre-Tax (over 2%)	100%	<ul style="list-style-type: none"> <li>Hardship</li> <li>Required Minimum Distributions</li> <li>Lump Sum/Installment</li> <li>In-service - after age 70 ½ f</li> </ul>	<ul style="list-style-type: none"> <li>Eligible to Transfer</li> <li>Eligible for Future Contrib</li> <li>Eligible for Investment Ele</li> <li>Future contributions are in the same election as sour</li> </ul>
S	Employee Pre-Tax Basic (up to 2%)	100%	<ul style="list-style-type: none"> <li>Hardship</li> <li>Required Minimum Distributions</li> <li>Lump Sum/Installment</li> <li>In-service - after age 70 ½</li> </ul>	<ul style="list-style-type: none"> <li>Eligible to Transfer</li> <li>Eligible for Future Contrib</li> <li>Eligible for Client Match</li> <li>Eligible for Investment Ele</li> </ul>
<b>Employee Rollover:</b>				
9	Rollover Account	100%	<ul style="list-style-type: none"> <li>Hardship (but not including any direct transfers, such as prior DB transfer)</li> <li>Required Minimum Distributions</li> <li>Lump Sum/Installment</li> <li>In-service (but not including any direct transfers, such as prior DB transfer).</li> </ul>	<ul style="list-style-type: none"> <li>Eligible to Transfer</li> <li>Eligible for Future Contrib</li> <li>Eligible for Investment Ele</li> </ul>
<b>Employer Contributions:</b>				
D	Employer Match (over 1%)	Schedule 1	<ul style="list-style-type: none"> <li>Hardship</li> <li>Required Minimum Distributions</li> <li>Lump Sum/Installment</li> <li>In-service – after age 59 1/2 on vested amounts in the 401k plan</li> </ul>	<ul style="list-style-type: none"> <li>Eligible to Transfer</li> <li>Eligible for Future Contrib</li> <li>Future contributions are in the same investment elec source [A]</li> </ul>
F	Employer Match (up to 1%)	Schedule 1	<ul style="list-style-type: none"> <li>Hardship</li> <li>Required Minimum Distributions</li> <li>Lump Sum/Installment</li> <li>In-service – after age 59 1/2 on vested amounts in the 401k plan</li> </ul>	<ul style="list-style-type: none"> <li>Eligible to Transfer</li> <li>Eligible for Future Contrib</li> <li>Future contributions are in the same investment elec source [A]</li> </ul>
<b>Source Presentation/Notes:</b>				
<b>This listing specifies the order the sources will be presented on the IVR, Web, confirmation state and account statements.</b>				

**Article 1, Attachment B**

## Pricing for the State of Michigan – Pension Plus Plan

<b>Services:</b>	<b>COST</b>	<b>Comments:</b>
<ul style="list-style-type: none"> <li>Plan Set-up/Transition Fee</li> </ul>	Initial: \$250,000  2011: \$94,000 to add 401(a) feature	To be billed to and paid by State of Michigan on the 1 <sup>st</sup> invoice for Additional Services. To be billed to and paid by State of Michigan after completion.
<ul style="list-style-type: none"> <li>Plan Level Termination Fee</li> </ul>	None	
<ul style="list-style-type: none"> <li>Per Participant Recordkeeping Fee</li> </ul>	\$51per participant per year	Assessed quarterly on each participant account with a balance in the Pension Plus Plan at the end of each quarter ING will reduce quarterly fee deducted from member accounts by applying credit offsets for amounts paid by ORS (i.e., forfeitures, etc.).
<ul style="list-style-type: none"> <li>Custodial Trustee Fees</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Trustee Fee Outside Investments</li> </ul>	NA	NA
<ul style="list-style-type: none"> <li>Self-Directed Brokerage Account</li> </ul>	Same as Article 1, Attachment A	
<ul style="list-style-type: none"> <li>Investment Advisory Services</li> </ul>	Same as Article 1, Attachment A	
<ul style="list-style-type: none"> <li>Annuity Product</li> </ul>	Same as Article 1, Attachment A	
<ul style="list-style-type: none"> <li>Check Processing</li> </ul>	Included	
<ul style="list-style-type: none"> <li>1099R Forms</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Postage</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Loan Administration:               <ul style="list-style-type: none"> <li>Set-up</li> <li>Maintenance</li> </ul> </li> </ul>	\$50 per loan \$0	Loans to be added at direction of State of Michigan in 2012 or after.
<ul style="list-style-type: none"> <li>Hardship Qualifications</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Qualified Domestic Relations Order</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Wire/ACH Fees for Participant Distributions</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Participant Statements</li> </ul>	Included	Statements will be run quarterly, and mailed semi-annually
<ul style="list-style-type: none"> <li>Transaction Confirmation Statements</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Voice Response Services</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Customer Service Center</li> </ul>	Included	
<ul style="list-style-type: none"> <li>Internet Services</li> </ul>	Included	In addition to transactional participant website, ING will provide a Pension Plus Plan customized non-



		transactional website at no cost to the State.
▪ On-line Services:		
▪ Landing Page Initial Creation Maintenance	Included	
▪ Employee Communication & Education:		
▪ Enrollment Kits (aka Welcome Brochures)	Included	
▪ Generic periodic newsletter	Included	Newsletter will be prepared quarterly and mailed semi-annually
▪ Customized periodic newsletter	Included	
▪ Retirement planning tools	Included in Article 1, Attachment A	
▪ Pre-retirement planning tools	Included in Article 1, Attachment A	
▪ Investment education materials	Included in Article 1, Attachment A	
▪ Enrollment Services:		
▪ No. of initial enrollment meetings	N/A	N/A Additional field support will be added to support the Pension Plus Plan as participants increase.
▪ No. of ongoing enrollment meetings (frequency and price per meeting)	Included in Article 1, Attachment A	
▪ Enrollment Kits (aka Welcome Brochures)	Included	
▪ Other (be specific)	ING will hire an administrative resource to interact with school payrolls. This position will be located in Lansing, Michigan and the Plan's payment for the cost will not exceed \$100,000 annually.	Cost to be absorbed by the plan.

STATE OF MICHIGAN  
DEPARTMENT OF MANAGEMENT AND BUDGET  
PURCHASING OPERATIONS  
P.O. BOX 30026, LANSING, MI 48909  
OR  
530 W. ALLEGAN, LANSING, MI 48933

December 18, 2007

NOTICE  
TO  
CONTRACT NO. 071B7200333  
between  
THE STATE OF MICHIGAN  
and

NAME & ADDRESS OF VENDOR  <b>Citistreet LLC</b> <b>1 Heritage Drive</b> <b>North Quincy, MA 02171</b>  <b>rtaylor@citistreetonline.com</b>	TELEPHONE (703) 251-4655 <b>Randy Taylor</b>
	VENDOR NUMBER/MAIL CODE
	BUYER/CA (517) 241-1916 <b>Jim Wilson</b>
Contract Compliance Inspector: Brian Mclane (517) 332-1926 <b>Third Party Administration (TPA) Services for 401(k) and 457 – Dept. of Management &amp; Budget</b>	
CONTRACT PERIOD: From: <b>September 5, 2007</b> To: <b>September 4, 2012</b>	
TERMS  <b>N/A</b>	SHIPMENT  <b>N/A</b>
F.O.B.  <b>N/A</b>	SHIPPED FROM  <b>N/A</b>
MINIMUM DELIVERY REQUIREMENTS  <b>N/A</b>	

The terms and conditions of this Contract are those of ITB #071I7200188, this Contract Agreement and the vendor's quote dated 05/09/2007. In the event of any conflicts between the specifications, and terms and conditions, indicated by the State and those indicated by the vendor, those of the State take precedence.

Estimated Contract Value: \$83,403,680.00

STATE OF MICHIGAN  
DEPARTMENT OF MANAGEMENT AND BUDGET  
PURCHASING OPERATIONS  
P.O. BOX 30026, LANSING, MI 48909  
OR  
530 W. ALLEGAN, LANSING, MI 48933

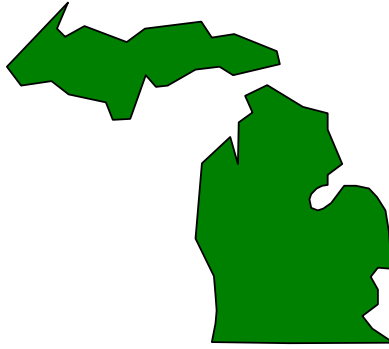
CONTRACT NO. 071B7200333  
between  
THE STATE OF MICHIGAN  
and

NAME & ADDRESS OF VENDOR		TELEPHONE (703) 251-4655
<b>Citistreet LLC</b>		<b>Randy Taylor</b>
<b>1 Heritage Drive</b>		VENDOR NUMBER/MAIL CODE
<b>North Quincy, MA 02171</b>		BUYER/CA (517) 241-1916
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TERMS	<b>N/A</b>	SHIPMENT
F.O.B.	<b>N/A</b>	SHIPPED FROM
MINIMUM DELIVERY REQUIREMENTS		<b>N/A</b>
MISCELLANEOUS INFORMATION:		
<p>The terms and conditions of this Contract are those of ITB #071I7200188, this Contract Agreement and the vendor's quote dated 05/09/2007. In the event of any conflicts between the specifications, and terms and conditions, indicated by the State and those indicated by the vendor, those of the State take precedence.</p>		
Estimated Contract Value: <b>\$83,403,680.00</b>		

**THIS IS NOT AN ORDER:** This Contract Agreement is awarded on the basis of our inquiry bearing the ITB No. 071I7200188. Orders for delivery may be issued directly by the Department of Treasury through the issuance of a Purchase Order Form.

All terms and conditions of the invitation to bid are made a part hereof.

FOR THE VENDOR:	FOR THE STATE:
<b>Citistreet LLC</b>	Signature
Firm Name	<b>Elisa A. Lancaster, Director</b>
Authorized Agent Signature	Name/Title
Authorized Agent (Print or Type)	<b>Purchasing Operations</b>
Date	Department
	Date



**STATE OF MICHIGAN  
Department of Management and Budget  
Purchasing Operations**

Contract No. 071B7200333  
Third Party Administrator (TPA) Services for 401(k) and 457

Buyer Name: Jim Wilson  
Telephone Number: 517-241-1916  
E-Mail Address: wilsonj4@michigan.gov



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**ATTACHMENTS**

Fee Analysis



Investment Management Fees

4

**Article 1 – Statement of Work (SOW)****1.0 Project Identification****1.001 Project Request**

The purpose of this contract is for the following:

- Third Party Administrator (TPA) for the 401(k) and 457 Plans sponsored by the State for its approximately 80,000 active and terminated participants, with some participants in both Plans. The TPA shall provide recordkeeping/administration, custodial and education services. (Section 1.104a)
- Self-Directed Brokerage account services. (Section 1.104b)
- Investment Manager for a Stable Value Fund for each of the two (2) plans. (Section 1.104c)
- Investment fund selection and performance measurement services. (Section 1.104d)
- Investment Advice to participants. (Section 1.104e)

**1.002 Background**

The 457 Plan was initiated in 1975, has \$2.0 billion in assets and has approximately 38,000 accounts with a balance, 15,100 for employees actively contributing. The 401(k) Plan was initiated in 1985, has \$2.5 billion in assets and has 63,100 accounts with a balance, including 40,076 for employees actively contributing (including Defined Contribution Plan participants.) In 1996, the 401(k) Plan was amended to require all new employees hired after March 31, 1997 and existing employees who chose to convert from the Defined Benefit Pension Plan to receive an employer basic contribution of four percent (4%) of salary. In addition, if these employees make pre-tax contributions to the 401(k) Plan, they will receive an employer match of up to three percent (3%) on the first three percent (3%) of contributions. This segment of the 401(k) Plan is called the 401(k) Defined Contribution Plan. These employees can elect to contribute greater than 3% into the 401(k) Plan or 457 Plan, up to the limit imposed by the Internal Revenue Service. Employees who converted and had a vested benefit in the Defined Benefit Pension Plan each received the actuarial equivalent of that plan benefit transferred to their account in the 401(k) Plan. Currently there are approximately 26,500 active and terminated participants in the 401(k) Defined Contribution Plan. This Plan has a four-year vesting schedule for employer contributions.

Both the 401(k) and 457 Plans are self-funded programs. The cost of administering the Plans is borne by the participants through revenue sharing of investment management fees and separate participant fees for loans, the Directed Brokerage Account and the Investment Advice service. There is no other source of revenue from the State of Michigan for the TPA.

Both the 401(k) and 457 Plans were administrated internally at the State, using quarterly valuations, until April 1, 1997 when the first outside administrator, using daily valuation accounting, was hired for the Plans. All historic records were transferred to the TPA. The current TPA also provides Self-Directed Brokerage Accounts, Stable Value Investment management services, Manager Selection and Evaluation services and Advice. The contract with this TPA is scheduled to expire December 31, 2007.

The summary below describes the features of the State Plans. The Plan Documents and more detailed summary plan information can be found on the website at <http://stateofmi.csplans.com>.



Feature	457 Plan	401(k) Plan	Defined Contribution 401(k) Plan
IRC Code Section	457(b)	401(k)	401(k)
Eligible Employees	All State Employees plus three non-central payroll entities.	All State Employees plus three non-central payroll entities.	All new hires after 3/31/97. Employees hired prior to 4/1/97 who converted from the Defined Benefit Plan, plus three non-central payroll entities.
Employee Pre-Tax Deferrals	Fixed dollar amount or percentage of pay, limited by Section 402(g)..	Fixed dollar amount or percentage of pay, limited by Section 402(g).	Fixed dollar amount or percentage of pay, limited by Section 402(g).
Employer Contributions	None	None	4% basic plus up to 3% match of employee's first 3% contribution.
Catch-Up Contributions	Traditional three-year catch-up; over age 50 catch-up	Over age 50 catch-up	Over age 50 catch-up
Loan Provisions	None	Yes. Minimum of \$1,000. Multiple loans allowed.	Yes. Minimum of \$1,000. Multiple loans allowed.
Purchase Service Credit in Defined Benefit Plan	May be able to purchase service credits with 457 money.	May be able to purchase service credits with 401(k) money	Not applicable under normal circumstances
Vesting	Not applicable	Not applicable	50% after 2 years, 75% after 3 years, 100% after 4 years
Rollover/Transfer in from another plan	Yes from 457 plans only	Yes from 401(k), 401(a), 403(b) and some IRAs	Yes from 401(k), 401(a), 403(b) and some IRAs
Early withdrawal penalty	No	Yes	Yes
In-Service Withdrawals	Yes, for unforeseeable emergency as defined under Section 457. Also allowed after attainment of age 70-1/2.	Yes, if financial hardship as defined in the plan document. Also allowed after attainment of age 70-1/2.	Yes, if financial hardship as defined in the plan document. Also allowed after attainment of age 70-1/2.
Payout Options	Lump sum, rollover, payout over life expectancy, payout of specific dollar amount.	Lump sum, rollover, payout over life expectancy, payout of specific dollar amount.	Lump sum, rollover, payout over life expectancy, payout of specific dollar amount.
Taxability of Distributions	Federal and State income taxes apply.	Federal and State income taxes apply.	Employer contributions and employee first 3% of contributions exempt from State income taxes.



## Plan Information for 401(k) and 457 Plans:

<b>Plan Assets as of 9/30/06:</b>	<b>Total: \$4,505,763,656</b> <ul style="list-style-type: none"> <li>▪ 401(k) Plan: \$2,550,054,384</li> <li>▪ 457 Plan: \$1,955,709,271</li> </ul>
-----------------------------------	---

<b>Participant Accounts as of 12/31/05:</b>		
<b>Participant Status</b>	<b>401(k) Plan</b>	<b>457 Plan</b>
Employed Active Contributing	40,076	15,068
Employed Not Contributing	8,002	9,341
Terminated/Installment Status	713	6,305
Terminated/Deferred Status	<u>14,307</u>	<u>7,239</u>
<b>Total Participant Accounts</b>	<b>63,098</b>	<b>37,953</b>

<b>Cash Flow Summary</b>				
	<b>401(k) Plan</b>		<b>457 Plan</b>	
	<b><u>Year 2005</u></b>	<b><u>YTD 9/30/06</u></b>	<b><u>Year 2005</u></b>	<b><u>YTD 9/30/06</u></b>
Employee P/T Contributions	\$132,179,557	\$103,806,932	\$55,572,893	\$44,033,826
State Mandatory 4%	\$41,623,736	\$32,293,304	\$0	\$0
State 3% Match	\$22,951,108	\$18,571,779	\$0	\$0
Banked Leave Time	\$2,655,767	\$2,673,641	\$0	\$0
Rollovers In	\$4,349,649	\$4,237,279	\$0	\$228,224
Employee Catch-Up Contributions	<u>\$0</u>	<u>\$0</u>	<u>\$153,641</u>	<u>\$86,40</u>
<b>Total Contributions</b>	<b>\$203,759,817</b>	<b>\$161,582,934</b>	<b>\$55,726,534</b>	<b>\$44,348,890</b>
Hardship/Withdrawals/PSC(1)	(\$11,032,074)	(\$11,003,885)	(\$4,042,167)	(\$4,262,611)
Rollovers Out	(\$10,974,986)	\$0	(\$12,389,609)	\$0
Distributions/Installment	(\$66,627,806)	(\$65,550,447)	(\$125,717,377)	(\$112,642,697)
Fees	<u>(\$1,514,613)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>Total Distributions</b>	<b>(\$90,149,479)</b>	<b>(\$80,341,762)</b>	<b>(\$142,149,153)</b>	<b>(\$116,905,308)</b>
<b>Net Cash Flow</b>	<b>\$113,610,338</b>	<b>\$81,241,172</b>	<b>(\$86,422,619)</b>	<b>(\$72,556,418)</b>

<b>Loan Information as of December 31, 2005 – 401(k) Plan</b>	
Loan Balance	\$164,098,337
Number of Participants with Loans	16,451
As of 12/31/2005:	
Participants with 1 Loan	5,195
Participants with 2 Loans	2,644
Participants with 3 Loans	1,692
Participants with 4 Loans	1,260
Participants with 5 Loans	1,145
Participants with 6 Loans	1,315
Participants with 7 Loans	3,200

(1) Purchase of Service Credit



## Plan Statistical Summary for 401(k) and 457 Plans:

State of Michigan 2005 Processing Summary – Number of Transactions			
Transaction Type:	401(k) Plan	457 Plan	Total
Contributions	981,888	362,712	1,344,600
Hardship Distributions	-	-	1,440
Lump Sum Distributions	2,698	2,672	5,370
Loans Issued	51,419	-	51,419
Purchase of Service	200	314	514
Installment Payments	6,258	60,984	67,242
Deferral Election Changes	-	-	27,032
Investment Election Changes	-	-	20,937
Transaction Confirmations	-	-	130,656
Distribution Statements	-	-	5,370
Statement Mailings	-	-	314,443
Literature Fulfillment	-	-	13,104

Investment Advisory Services – As of August 31, 2006	
Total Users since inception	27,664
Phone Advisory Service	7,708
Online Advisory Service	19,956
Active Users with a Balance	23,821
Advised Participant Averages	
Plan Balance	\$34,120
Outside Plan Holdings	\$32,790
Contribution Rate Details	
Advised Participants	5.27%
Self-Directed Participants	4.08%
Advised Population Details	
Age	46.8
Income	\$48,620
Gender	
Male	58%
Female	42%



## Plan Assets as of September 30, 2006

<b>Tier 1 Funds</b>	<b>401(k) Plan</b>	<b>457 Plan</b>	<b>Total Assets</b>	<b>% of Total Assets</b>
SSgA Yield Enhanced STIF	153,831,395	14,548,704	168,380,100	3.7%
SSgA Stable Value	396,177,774	921,054,242	1,317,232,016	29.2%
SSgA Bond Market Index	50,801,035	22,090,855	72,891,889	1.6%
SSgA S&P 500 Index	190,983,567	126,905,485	317,889,052	7.1%
SSgA S&P MidCap Index	122,034,307	67,020,629	189,054,936	4.2%
SSgA Russell 2000 Index	45,003,809	26,171,123	71,174,932	1.6%
SSgA Conservative Asset Alloc	10,348,837	8,760,129	19,108,966	0.4%
SSgA Moderate Asset Alloc	20,839,800	13,616,339	34,456,139	0.8%
SSgA Aggressive Asset Alloc	<u>23,816,710</u>	<u>9,589,493</u>	<u>33,406,203</u>	0.7%
<b>Total Tier 1*</b>	<b>\$1,013,837,234</b>	<b>\$1,209,756,999</b>	<b>\$2,223,594,233</b>	
<b>Tier 2 Funds</b>				
Western Asset Core Bond FI	35,117,496	15,409,964	50,527,460	1.1%
MFS Total Return; A	68,180,449	22,914,263	91,094,711	2.0%
Dodge & Cox Stock	456,373,917	258,256,682	714,630,599	15.9%
Legg Mason Large Cap Growth	202,388,747	104,809,906	307,198,654	6.8%
Lord Abbett Mid-Cap Value; A	61,950,816	33,604,592	95,555,407	2.1%
Artisan Mid-Cap	17,972,337	9,199,907	27,172,244	0.6%
Columbia Acorn; Z	130,100,052	63,911,192	194,011,244	4.3%
STI Classic Sm Cap Value I	34,660,589	18,621,528	53,282,118	1.2%
American Funds EuroPacific Gr	108,120,187	101,893,510	210,013,697	4.7%
Templeton Foreign; A	43,006,794	12,065,519	55,072,313	1.2%
SSgA Emerging Markets	<u>115,409,728</u>	<u>66,638,600</u>	<u>182,048,327</u>	4.0%
<b>Total Tier 2</b>	<b>\$1,273,281,111</b>	<b>\$707,325,662</b>	<b>\$1,980,606,774</b>	
<b>Total Tier 1 and Tier 2</b>	<b>\$2,287,118,345</b>	<b>\$1,917,082,661</b>	<b>\$4,204,201,007</b>	
Loan Fund	183,360,761		183,360,761	4.1%
SMA	<u>79,575,278</u>	<u>38,626,610</u>	<u>118,201,888</u>	<u>2.6%</u>
<b>Total Plan Assets</b>	<b>\$2,550,054,384</b>	<b>\$1,955,709,271</b>	<b>\$4,505,763,656</b>	<b>100.0%</b>

\*Tier 1 assets are available for transfer to the new TPA.

**Payroll Process:**

Main payroll system covers all but 87 participants and is run bi-weekly. Payroll is sent electronically and funds are wired. For the 87 non-central payroll participants, a total of 77 checks and 15 wires are received each month. Hard copy detail is faxed to the TPA. One agency has eight participants, one has three and the rest have one or two.


**Total Employees by employment location as of June 17, 2006 - 55,091**

County Name	Total Employees	County Name	Total Employees	County Name	Total Employees
Alcona	28	Houghton	151	Monroe	212
Alger	382	Huron	90	Montcalm	651
Allegan	251	Hillsdale	63	Montmorency	67
Alpena	142	Ingham	11,104	Muskegon	1,181
Antrim	24	Ionia	1,947	Newaygo	82
Arenac	359	Iosco	94	Oakland	1,311
Baraga	455	Iron	138	Oceana	118
Barry	120	Isabella	659	Ogemaw	81
Bay	337	Jackson	2,785	Ontonagon	49
Benzie	28	Kalamazoo	1,118	Osceola	57
Berrien	435	Kalkaska	59	Oscoda	36
Branch	747	Kent	1,756	Otsego	285
Calhoun	343	Keweenaw	24	Ottawa	250
Cass	80	Lake	48	Out of State	59
Charlevoix	93	Lapeer	466	Presque Isel	37
Cheboygan	160	Leelanau	8	Roscommon	186
Chippewa	1,360	Lenawee	824	Saginaw	1,102
Clare	72	Livingston	642	Sanilac	66
Clinton	139	Luce	408	Schoolcraft	114
Crawford	401	Mackinac	260	Shiawassee	89
Delta	265	Macomb	1,291	Statewide	911
Dickinson	58	Manistee	444	St. Clair	295
Eaton	3,183	Marquette	939	St. Joseph	95
Emmet	126	Mason	68	Tuscola	512
Genesee	903	Mecosta	77	Van Buren	272
Gladwin	53	Menominee	73	Washtenaw	1,785
Gogebic	300	Midland	85	Wayne	6,916
Grand Traverse	620	Missaukee	52	Wexford	222
Gratiot	913				

### 1.1 Scope of Work and Deliverables

#### **1.101 In Scope**

The TPA must provide services as described below. All services including communication/ education must be reviewed and approved by the State.

#### **1.104a Work & Deliverables – Third Party Administrator (TPA)**

- I. Transition from current recordkeeper
- II. Recordkeeping
- III. Administration
- IV. Compliance
- V. Custodial Trustee Services
- VI. Customer service
- VII. Marketing
- VIII. Communication Services
- IX. Technology and Systems
- X. Investments
- XI. Support services to Michigan staff
- XII. Transition Responsibilities Upon Termination





- 1.104b – Work & Deliverables – Self-Directed Brokerage Account Services
- 1.104c – Work & Deliverables – Management of Stable Value Funds
- 1.104d – Work & Deliverables – Investment Fund Selection and Performance Measurement and Analytics
- 1.104e – Work & Deliverables – Investment Advice Services

### 1.102 Out of Scope

The TPA will not be responsible for drafting Plan Documents or Amendments.

### 1.103 Environment - Reserved

### 1.104 Work and Deliverable

After receipt of award of contract, the TPA will provide Deliverables/Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

- I. Transition from Current Recordkeeper – the current contract expiration date is December 31, 2007. The target contract commencement date will be between July 1, 2007 and October 1, 2007. The TPA will:
  - A. Receive no compensation until after implementation is complete and contractor begins providing service. Contractor must state their agreement to this requirement.

#### Contractor Response to Task I-A:

We understand and agree to this requirement. Being the incumbent service provider if selected there will be no implementation charge. The ongoing administration service between July 1, 2007 and the new contract date will be charged.

- B. Provide any requested advice to the State during the transition.

#### Contractor Response to Task I-B:

CitiStreet agrees to provide any and all professional advice to the State in regard to the implementation of plan enhancements as well as any plan or investment changes that may be involved.

- C. Provide a Work Plan that covers the transition period starting three (3) months before and ending on the contract commencement date. This Plan shall include timelines, tasks, rules and procedures detailing all of the steps necessary to transition employee records, accounts and investments. This Plan shall also include consummating agreements and contracts with the State's investment providers, including payments such as 12(b)1 charges, and brokerage account provider. The TPA shall obtain approval of this plan from the State prior to implementing the plan.
  - (1) Contractor must explain the implementation/conversion process including all timeframes. The conversion will not require an initial re-enrollment. All assets in the Plans for Tier 1 will be transferred into similar investment options within each asset class of the new investment manager. Tier 2 assets will be transferred in-kind.
  - (2) How will the Contractor manage the implementation process to keep it on schedule? Identify risks and the contingencies in place to handle them.
  - (3) Describe the team that would be involved in implementation of the program, explaining each team member's role and experience with similar engagements. Is the same team responsible for on-going processing? If not, how will the implementation team work with the ongoing service team? Address, in particular, how transition and continuity issues will be addressed.



- (4) What involvement will be required from the State during the implementation process?
- (5) By what date would the Contractor need authority to proceed to accommodate an October 1, 2007 asset and recordkeeping transfer?

#### **Contractor Response to Task I-C:**

As the incumbent, we would continue to provide services and enhancements but no transition would be necessary. However, we wish to demonstrate our planning and project management capabilities to provide plan enhancements or other changes and therefore have responded to all transition items as such.

(1) Located in **Attachment E** please find a work plan that encompasses all the changes to the plan that would be necessary to provide any requirements of this RFP that are not already provided as a service to the plans as the incumbent service provider.

(2) CitiStreet will manage the implementation process in the same manner as if we were not the incumbent provider. This RFP includes some requested features that may not already be in place or investments that may change or be added to the current structure offering. A project will be established to make the necessary plan and investment changes and in concert with a communication campaign, rolled out on a schedule agreed to with the State. There will be no disruption to the participants.

CitiStreet manages our projects on a multi-level basis. We will perform a Discovery Phase in which we meet with you to discuss the requested changes and the Best-in-Class services that we can offer to meet your needs. This Discovery is documented for your review and approval before we enter the Development phase in which we begin the systems development and communication efforts to make the changes real. During all phases of the project we hold weekly internal meetings attended by all team areas, including implementation, plan administration and information technology team members. There is also a weekly meeting between CitiStreet and the State in which we review the agenda, open items, status reports and deliverables.

During our Testing phase the development items from the Development Phase are tested against the plan data in a test environment. Once the plan has passed our strict test cases the plan changes are offered to the client for user testing.

The Steering Committee holds a monthly meeting which is intended to cover high level project overviews and to make decisions on project direction if needed. The Steering Committee is made up of individuals from both CitiStreet and State senior personnel.

(3) For each conversion, CitiStreet will assign a dedicated public sector project team led by an experienced Project Manager and Business Analyst to work with you throughout the conversion. The following team members located in our North Quincy office represent different areas of expertise throughout the conversion to ensure a successful transition to CitiStreet.

#### **Project Team – Core Members:**

- Implementation Services Vice President – Oversight – John Morrissey
- Implementation Services Project Manager – Project Leader
- Implementation Services Business Analyst – Plan configuration and quality control
- Information Technology Team Leader - Oversight - all aspect of IT resources
- Information Technology Programmer – Mainframe
- Information Technology Programmer – Payroll processes / reporting
- Information Technology Programmer – Statements/Forms/Confirmation statements
- Information Technology Programmer – Conversion data
- Information Technology Programmer – Oracle Database
- Information Technology Programmer – Voice Response System
- Information Technology Programmer – Internet
- Plan Administration – Process development
- Implementation Services Quality Control Analyst

The State of Michigan's team would include the following key contacts:

**John Morrissey – Senior Vice President, Implementation Services**

John Morrissey is a Senior Vice President within Implementation Services for CitiStreet's Defined Contribution Services Retirement Services Division. John manages a team of project managers and business analysts whose role is to install new defined contribution plans, perform merger and acquisition plan implementations and plan enhancements for existing clients. Prior to his current position John has spent over 18 years in the defined contribution industry holding management positions at major institutions in areas of plan implementation and plan administration. John has also been employed by major consulting firms engaged in consulting projects for retirement plan providers.

John earned his B.S. degree in Finance from Skidmore College and is a member of the International Foundation of Employee Benefit Plans.

**Lien Ho – Project Manager, Governmental Implementation Services**

Lien is a Project Manager in the Public Sector Implementation department. Lien currently manages a team of Business Analysts responsible for the implementation and upgrade of Public Sector clients.

Prior to Lien's current position she has spent over 18 years the financial industry where she spent 7 years in banking holding management positions at a major bank and 11 years in the plan implementation and plan administration of defined contribution with a major recordkeeping company in Norwood. Lien joined CitiStreet Implementation Services in November 2004 and has had direct involvement with the following Public Sector clients, State of Washington, CalSTRS, State of South Carolina, State of Arkansas, State of Florida, and most recently the State of Missouri. Lien will be responsible for managing all aspects of the project and coordinating all CitiStreet resources assigned to the project.

Lien earned her Pension and Employee benefits Certificate from Bentley College and was a participant of the Melbourne University Management Administration Program for three years in Australia.

Resources from the following departments will be assigned to this project and will provide weekly status reports to the project manager

- Quality Assurance
- Legal
- Communications
- Investment Services
- Information Technology
- User Services
- State Street Bank & Trust
- Product Development

Upon completion of the implementation, the assigned Plan Administration team will take over the management of your plan. To ensure a smooth transition from implementation to ongoing administration of your plans, Plan Administration team members are closely involved with the project, beginning with the project kickoff meeting. Implementation services will continue supporting any plan administration technical needs for a minimum of 30 days after the live date.

CitiStreet provides continuity of service to clients via our organizational structure and cross-training emphasis. The team structure, with multi-levels of support, provides necessary backup (another professional with similar skills and experience supports each team member's role).

(4) Successful projects are the projects where all parties work together as a team.

However, we recognize that program enhancement is our full-time job and it is not yours. With that in mind, we try to limit your required involvement in the process but we will ask that you volunteer your time for weekly project conference calls and a few meetings that we utilize for project discovery and status reporting.

The more time that you can spend with us, within reason, the better we can learn your needs and expectations as well as understand your culture and your participants' needs.



(5) We have prepared a timeline for the plan enhancements that reflects a June 31, 2007 decision date from Michigan and a October 1, 2007 live date as a sample

D. Establish contacts with appropriate State staff and departments.

**Contractor Response to Task I-D:**

CitiStreet is already in contact with the appropriate State staff and departments but will include departments not already in contact with the project team. These relationships have been established over the course of the current contract period and new contacts developed.

E. Take receipt of all participant files, both electronic and hard copy.

(1) Does the Contractor have any limitations as to the format/media of participant data?

**Contractor Response to Task I-E:**

CitiStreet has no limits on the format and media of participant data. Being the incumbent we are assuming we are in possession of the appropriate participant data. However, if a new service being implemented also requires participant data not already in our possession, CitiStreet will work with the State and its representatives to obtain that data.

F. Develop appropriate software to allow for data transmission between the State and the TPA. These systems shall be tested prior to the conversion date until the TPA and the State are mutually satisfied that the new system can sustain itself independently and operate with a high degree of timeliness and accuracy necessary to guarantee the integrity of the plans. (See Exhibit A for Payroll Interface.) In addition to the information on Exhibit A, the State may also transmit participant salary information, Roth 401(k) deferrals, and percent as well as dollar deferrals to the TPA.

**Contractor Response to Task I-F:**

CitiStreet is currently interfacing with the State and as such believe the integrity of the plans is intact. If the State determines to include new data not currently being transmitted, CitiStreet can add that data to the current interfaces and perform all the necessary testing protocol to ensure a high degree of timeliness and accuracy.

G. For the initial transfer of current balances, allow individual participants to have the opportunity to choose among the proposed investment funds. If no active choice is made, individual investment funds will be mapped to similar investment funds with the approval of the State.

(1) Contractors shall describe the method employed to ensure the accurate mapping of investments from the current provider to any new investment products.

**Contractor Response to Task I-G:**

CitiStreet has an established procedure for the mapping of old funds to new funds. In concert with a strong communication program, we can map investments from the old investments to the new investments on either a one to one or a one to multiple or a several to several basis. Investment election percentages can also be mapped to either follow the same path as the investments or follow a different mapping. The mapping itself and guidance or communications can be approved by the State and estimates will be provided to all fund managers. The transactions that are used to perform the mapping are tested in a test environment using recent production data to ensure accuracy.

H. Develop and produce all appropriate forms needed for ongoing administration of the Plans. All forms must be approved by the State.

(1) Provide copies of the Contractor's administrative forms that are to be used by the participants to request transactions (i.e., hardships, unforeseeable emergency withdrawals, beneficiary, loans, etc).

**Contractor Response to Task I-H:**

CitiStreet will provide new forms for all new features that are being added to the plan as well as changes to the existing forms that might be necessary due to the changes in the plan or its investments.

- I. Develop an education plan and print educational materials needed for the transition and for ongoing education of all employees. All materials must be approved by the State.

**Contractor Response to Task I-I:**

CitiStreet continually works with the State of Michigan to provide targeted communications to achieve specific client goals such as increasing participation. It is our experience that individuals tend to make financial decisions on their time as opposed to when we communicate. As such, we develop an ongoing, targeted campaign as opposed to a one-time communication tends to be a more effective approach to building participation. Our process to ensure delivery of targeted communications includes:

Development of an annual communication strategy that identifies targeted opportunities relative to deferrals, participation, asset allocation, and life-cycle, in addition to general plan communication and means for building investor education. This is presented to Michigan for review and approval prior to implementation. When considering target groups (e.g. non-participants), we also review and report on a demographic breakdown by age and income range, as well as location, to identify trends among employees.

Targeted communications include all or some of: postcards, statement inserts, targeted Web messaging, personal projection statements, targeted workshops, one-on-one paycheck analysis sessions, asset allocation worksheets.

All targeted campaigns are measured to determine results. These results are reported to the State of Michigan.

In 2006, the Government Communications & Education team completed targeted campaigns for 80% of our Client base.

The results of these campaigns were as follows:

- Campaigns to increase fund diversification resulted in the average number of funds per participant rising from 2 to 3
- Campaigns to increase participation rate increase enrollment ranged from 2% - 8%, with an average increase of participation of 6% .
- Campaigns to increase deferral rate - increase rates ranged from 8% - 12%, an average increase in deferral rate of 10%
- Campaigns designed to decrease rollovers ranged from a 15% - 27% reduction in asset withdrawals with an average of 25.3%

CitiStreet has been engaged in Targeted messaging campaigns with The State of Michigan over the last 5 years. These efforts have show significant increases in all measurable areas such as enrollments, diversification, participation in the Advisor service, and overall Plan recognition.



- J. Conduct educational meetings throughout the State to review the upcoming changes. Some meetings in some locations may be done by videoconference. The following are the current Michigan locations required. Additional locations may be added. Some locations will require multiple meetings.

Lansing	Detroit	Dearborn
Livonia	Sault Ste. Marie	Marquette
Escanaba	Muskegon	Grand Rapids
Holland	Flint	Saginaw/Bay City
Roscommon	Cadillac	Traverse City
Port Huron	Benton Harbor	St. Joseph
Kalamazoo	Gaylord	Grayling
Ludington Area	Tawas/Alpena	

- (1) Describe the Contractor's procedures during the conversion period to communicate with the State's non-active employees (i.e. retirees and terminated employees with value in the Plans).

**Contractor Response to Task I-J:**

As the incumbent, no conversion meetings will be necessary but we will provide meetings related to enhancements. CitiStreet will not only continue to present in the current locations, but also look to branch out to several other areas, the goal being to visit each county with State employees at least once per year, if not once per quarter, minimum. CitiStreet feels it can achieve this goal with two additional local staff and also utilizing other technologies, such as webinars/e-seminars and videoconferencing.

(1) CitiStreet is very dedicated to every stage of a participant's life from new hire to retiree. Each of our local offices, including our current Michigan office, makes a concerted effort to reach out to retirees and terminated employees with a balance, not only during a conversion, but after the conversion is complete as well. Some of the successful ways of reaching this population are as follows:

- Contact any retiree associations, such as SERA, throughout the State and ask to be on the agenda of any of their scheduled meetings during the conversion period
- Conducting meetings in neutral/open to the public locations so that any participant, not just those employed at a particular site, can attend the meeting.

We have also found that targeting these individuals with special mailings can be of value as well during the conversion. For example in the State of Missouri's transition from Nationwide to CitiStreet, we had two versions of communication materials, one for active employees and one for employees who had separated service. Many of those who had separated service gave us feedback that they appreciated the individualism it provided and how it emphasized they could attend meetings and have a personal local contact to address any questions or concerns as a retiree/separated participant. Approximately 20% of our transition meeting attendance was by retirees/employees who had separated service.

- K. Set up a Michigan-specific web site and a Michigan-specific voice response system and develop all appropriate forms, statements and brochures prior to the start-up date.

**Contractor Response to Task I-K:**

As the incumbent, the Michigan-specific website, voice response system, forms, statements and brochures are already in place. However, in keeping with the plan's changes; the website, voice response system, forms, statements and brochures will be updated to reflect all the changes and enhancements to the current systems and procedures.

- L. Provide the State with a written certification indicating that you are able to assume all responsibilities for administering the Plans prior to the effective date of the contract. This will include verification that all systems and procedures are in place and have been properly tested.



**Contractor Response to Task I-L:**

As the incumbent we would be pleased to provide this or other requirements related to our current processes or any future enhancements.

- M. Complete the necessary administrative documents, contracts, etc., with all Michigan investment providers including the brokerage account and investment advisory providers.

**Contractor Response to Task I-M:**

These are already in place for the current plan. Additional items will be provided as needed.

- N. Receive final participant recordkeeping files from prior TPA and reconcile data received with data transmitted. Data received shall include participant level asset positions, demographic data, market values, detailed participant transaction history as well as customer service representative notes.

**Contractor Response to Task I-N:**

As the incumbent, this step will not be necessary but if this were a new implementation from a separate TPA, we would comply.

- O. Receive assets and financial accounting records and review reconciliation of assets to records as of the transfer date.

- (1) How does the Contractor's organization test conversion of prior valuation and reconciliation of assets to balance before conversion?

**Contractor Response to Task I-O:**

This will not be necessary as CitiStreet is the incumbent. If this were necessary, CitiStreet would employ its industry leading SIP 2000 data conversion tool to produce the records to records conversion and utilizing data from the prior trustee, input the prior trustee balances to prove a records-to-records-to-Trust-to-Trust conversion reconciliation.

- P. Cooperate with an independent accountant selected by the State who will confirm the validity of account balances upon completion of the transition. The transition plan audit will be completed within 120 days after the implementation date.

**Contractor Response to Task I-P:**

CitiStreet will cooperate with an independent accountant within 120 days of the transition end if the State found it prudent to apply this requirement to the plan enhancements at CitiStreet.

- Q. The TPA must provide assurances to the State that implementation will be provided as agreed.

- (1) What assurances/guarantees will the Contractor provide to the State with respect to a timely implementation?
- (2) What delays has the Contractor typically experienced during implementation?
- (3) Confirm how any blackout period will conform to the Sarbanes-Oxley Act for participant notification.

**Contractor Response to Task I-Q:**

Although as the incumbent, these items would not apply:

- (1) CitiStreet puts \$5,000 per day at risk for each day a recordkeeping conversion live date is not met. CitiStreet has never missed a live date and, therefore, is comfortable putting our fees at risk.
- (2) Delays in TPA to TPA implementation often arise from the prior TPA's inability to meet certain deliverable dates of the assuming TPA such as deliverable dates for test conversions or the necessary reports. As CitiStreet is the incumbent, we do not foresee any such delays.



(3) CitiStreet strictly adheres to the Sarbanes-Oxley Act requirements for participant notifications. CitiStreet does not envision having a participant trading blackout and would not, therefore, need to follow the Act requirements but will still follow the participant notification requirements as if there were a blackout.

## II. Recordkeeping

### A. Participant Level:

1. Establish separate accounts for each participant in each Plan. Invest all contributions received by wire on a same-day basis in accordance with instructions received from each participant. Money in each account will be tracked in the following sources:

- Employee pre-tax contributions, first 3% matched (401(k) only) Non-taxable to Michigan
- Employee pre-tax contributions, above 3% not matched (401(k) only)
- Employee pre-tax contributions, all for Defined Benefit Plan members (401(k) and 457)
- Employee post-tax contributions (no ongoing contributions) (401(k) and 457)
- Employee over 50 catch-up contributions (401(k) and 457)
- Employee traditional catch-up contributions (457 only)
- Employer 4% basic contributions (401(k) only) Non-taxable to Michigan
- Employer 3% matching contributions (401(k) only) Non-taxable to Michigan
- Employer contributions vested upon termination (401(k) only) Non-taxable to Michigan
- Employer Lump Sum Match contributions (no ongoing contributions) (401(k) only)
- Employer Banked Leave Time contributions (401(k) and 457)
- Rollover from outside plans or IRAs (401(k) and 457)
- Plan to Plan transfer of conversion from DB plan balances (401(k) only) Non-taxable to Michigan
- Capacity to add sources for ROTH 401(k) and other sources as needed.

- (a) Describe the Roth 401(k) product features and design. Contractors must provide the number of clients from their current book of business who have implemented a Roth 401(k) feature to their core savings plan.

### **Contractor Response to Task II-A-1:**

CitiStreet's recordkeeping system maintains separate and distinct accounts for each participant within a separate and distinct Plan account. All transactions are recorded in history at the participant level and can be retrieved at any time. Management reporting can retrieve data at either a participant or plan level. Money in each account will be tracked by the sources indicated above.

All contributions received by wire will be invested on a same-day basis in accordance with instructions received from each participant.

(a) Our system was able to accept Roth 401(k) contributions on January 1, 2006, the initial effective date of this feature. CitiStreet provides record keeping services to a number of government clients that, like the State of Michigan, have grandfathered 401(k) plans. We are ready to help you add the Roth 401(k) feature to your retirement plan. We are successfully recordkeeping Roth 401(k) contributions for 8 clients and 10 plans.

CitiStreet has created an education and communication program to help introduce the Roth 401(k) to your participants and educate them about its features, benefits and applicability in an overall retirement savings strategy.

2. With the exception of the stable value fund, assets will be valued at their net asset value as of the close of each business day. The stable value fund shall be valued at book value unless otherwise required by generally accepted accounting principles. Interest in the stable value fund shall be accounted for on a daily effective method in accordance with the stable value fund investment guidelines (Exhibit D). The stable value fund is a separate account owned by the State. The securities will be transferred in-kind to the new TPA.



**Contractor Response to Task II-A-2:**

CitiStreet is in agreement with the investment valuation methodologies as written.

3. Individual participant records will include but not be limited to the following fields:

- a. Name
- b. Plan Date of Hire
- c. Plan Date of Entry
- d. Date of Birth
- e. Address
- f. Beneficiary
- g. Hours of Service
- h. Vested Percentage (need to calculate multiple vesting schedules based on service)
- i. Pay data as required
- j. Contribution sources listed above
- k. Location
- l. Social Security Number
- m. Employee Number
- n. Current Status code
- o. Plan Indicator
- p. Termination date

- (1) Most participants work on a 40-hour work week. However, there are some participants who do not but are full-time employees. Describe Contractor's capability to calculate vesting for these non 40-hour work week participants if the State provides the TPA with their cumulative hours worked and the appropriate vesting credit to be received.
- (2) For participant privacy and security, the State uses a 7-digit employee ID number for each participant rather than the social security number as the primary participant identifier. Describe how Contractor will be able to maintain this on your recordkeeping system and identify the participants using the employee ID number. Describe Contractor's capability including how ID numbers would be assigned for beneficiaries, alternate payees, terminated participants and those not on the centralized payroll system.
- (3) Some participants have more than one (1) account in the Plans (i.e., core account, alternate payee account, beneficiary account). Describe how the Contractor's system handles multiple accounts for one (1) participant using the 7-digit employee ID number.
- (4) Describe how the Contractor's system tracks participant salary information and military leave status as well as other types of census information.
- (5) Describe how the Contractor monitors participants who are on leave of absence.
- (6) Describe how the Contractor will be able to provide periodic demographic files to the State or vice versa to verify participant data (i.e. status codes, addresses, date of birth, date of hire, hours worked, etc)

**Contractor Response to Task II-A-3:**

CitiStreet confirms that all processes above are currently being performed.

- (1) CitiStreet calculates vested percent based on the hours worked sent to CitiStreet via the bi-weekly census file. CitiStreet can also receive and apply an appropriate vesting credit to a participant's account in lieu of calculating the vesting.
- (2) CitiStreet would receive the employee ID along with the social security number, in the demographic feed from the State. Employees would use the employee ID as the primary identifier, along with the CitiStreet issued PIN to access their accounts through website and VRS. CitiStreet would assign a unique identifier in lieu of the employee ID for beneficiaries, alternate payees, terminated participants (who have not been issued an employee ID) and those not on the centralized payroll system.



- (3) Alternate payee and beneficiary accounts would be assigned unique identifier IDs distinct from the employee ID.
- (4) Census information is updated bi-weekly via a demographic feed from the State. Currently the State does not send salary information or military leave status. If the State began sending this census information CitiStreet would add appropriate salary information and an indicator to track military leave employees.
- (5) The State sends via the census file a leave of absence code which is updated to the employee's account. When the leave of absence has ended the State sends via the bi weekly census file a code to end the leave and updates CitiStreet's system of record.
- (6) CitiStreet can work to verify participant data either way. Currently on a mutually agreed upon time frame, CitiStreet receives files with status codes, addresses, date of birth, date of hire, hours worked, etc. from the State and compares the information with CitiStreet records. Updates are made with the State's consent. If the State would prefer CitiStreet can provide the data files for the State to perform the comparison.

#### 4. Qualified Domestic Relations Orders (QDRO)– 401(k) and 457 Plans:

- a. Flag participant account when QDRO is received
- b. Place distribution restriction on participant's account, sufficient to preserve alternate payee's interest until QDRO is approved
- c. Approve or reject the QDRO
- d. Calculate alternate payee's share in accordance with QDRO
- e. Set up account for alternate payee with account information as set forth in Task 2-A-3 above
- f. Make distributions to alternate payee when requested

- (1) Describe Contractor's ability to qualify and process Qualified Domestic Relations Orders with the attorneys representing the parties. Be specific about any role the State will be required to play.

#### Contractor Response to Task II-A-4:

Similar to a hardship request, CitiStreet reviews a DRO request for completeness. If the information is complete and available, we process accordingly. Typically the first request is for a copy of a model form. We provide that to the participant and answer questions as they arise.

Upon receipt of an already qualified Domestic Relations Order, CitiStreet establishes separate accounts according to the conditions of the order. Once established, the DRO accounts may function as any other participant account within the plan or may be restricted according to plan rules. As dictated by the order, throughout the DRO administration process, CitiStreet will code the affected accounts (participant and alternate payee) on our system to prohibit transactions using any of our participant servicing applications. CitiStreet also has the capability to freeze accounts that are going into settlement for DRO.

CitiStreet can assume the entire responsibility for DRO administration requiring no involvement by the State if desired. If we were to administer this service, we insure consistent and appropriate application of federal laws and plan provisions. The State will reduce their administrative burden by outsourcing - benefiting from audits and controls that ensure timely, accurate, and efficient processing in compliance with federal regulations. Our services can be easily integrated with your plans and include:

- **Model Approaches** to language for DRO filing, correspondence, calculation procedures, and processing guidelines, streamlining case processing and participant services.
- **Trained Case Analysts** who act as the primary contact among the participant, alternate payee, attorney, benefit payor/record keeper, and client. Trained case analysts respond to and track all inquiries from these parties.
- **Review and Response** to determine qualification under governing plan documents and federal law. Appropriate acknowledgements, acceptance and rejection letters, and draft modification letters are sent as required.

**Notifications** are sent to the participant, alternate payee, plan sponsor, and recordkeepers to document the account segregation instructions and benefit awards.



5. Death of participant/ Beneficiary Accounts – 401(k) and 457 Plans:

- a. Upon notification of the death of a participant, TPA will request a copy of the death certificate and retrieve the latest Designation of Beneficiary form.
- b. Send notification to named beneficiary of account amount and payout options available with Payout Guide.
- c. Set up account for beneficiary with above account information plus information about the deceased participant.
- d. Make distributions to beneficiary as requested.

(1) Describe Contractor's process to perform periodic death audits.

**Contractor Response to Task II-A-5:**

CitiStreet facilitates the payment of beneficiary claims based on the requirements of the Plan, as well as specific procedures that will be established with and agreed to by the plan sponsor. Based on direction received from the plan sponsor, CitiStreet will request and obtain all required documentation from the beneficiary including a certified death certificate, proof of relationship affidavit's etc. Upon receipt of this required documentation, CitiStreet will work with the Plan sponsor to confirm that it has the most recent beneficiary information for the participant. Subsequent to this confirmation, CitiStreet will process the beneficiary claim and make the applicable distribution or transfer consistent with the Plan Document.

B. Plan Level Reporting: see Exhibit B.

1. Separate quarterly reports on all activities in each Plan. The format of such reports shall be subject to State approval and shall include, but not be limited, to the following information:
  - a. The total number of participants in the Plan
  - b. The number of new participants in the plan broken down for the period and cumulative for the year
  - c. Total employee deferrals, employer contributions and withdrawals broken down for the period and cumulative for the year to and from each investment provider
  - d. Assets in the Plan broken down by investment provider at the end of the reporting period and cumulative for the year. Differences between the monthly allocation of investment funds and deposits for each investment option shown on the report
  - e. A statement of the rate of return broken down by investment provider for the reporting period and cumulative for the year and up to ten years
  - f. Benefit payout reports, reports on the 401(k) Plan loans and hardship withdrawals identified by participant
  - g. Amounts deducted from participant accounts by the TPA for administrative fees including information on any offsets to fees for amounts collected from investment companies
2. An annual report of each Plan will be posted on the participant web site maintained by the TPA no later than 30 days after the end of each calendar year.
3. All necessary reports and information to be able to account for the Plans in accordance with generally acceptable accounting principles.

**Contractor Response to Task II-B:**

1. We typically provide quarterly service reviews that recap any relevant information for the plan such as assets, investments, number of participants, enrollments, distributions etc. Please refer to the **enclosed** for a sample of the data that is provided quarterly in the Service Review. CitiStreet will continue to provide all of the items listed above for the State.
2. CitiStreet currently posts an annual plan report of each plan on the participant website, maintained by CitiStreet, no later than 30 days after the end of the calendar year.



3. Your Plan Administration team can provide a variety of reports, normally what is used is based on a combination of what the team thinks would be helpful for you and what you request. Some of the standard reports would be cash flow, fund balance information, enrollments, deferrals, web, call center and automated phone system statistics including transaction details, local office statistics to name a few. Frequency is typically quarterly, but if information is needed more frequently, it can be provided as needed.

In addition to the reports that your Plan Administration team will provide, you will also have access to our adhoc reporting tool, Report Writer, which allows clients to create almost any report they would like based on what is housed in the database. The tool comes with over 200 standard reports created based on common requests from CitiStreet clients that can be modified. Also, clients can start from scratch and build their own reports. CitiStreet also provides full training for any client staff that request it.

**C. Plan Level Responsibilities**

1. Maintain a General Ledger
2. Set up on the State's behalf all investment accounts and contracts
3. Reconcile investment accounts for each Plan with investment providers monthly and provide a copy of the monthly financial reports and reconciliation summary to the State within 10 business days of month end. The monthly financial report reconciliation summary for each Plan should be in a form acceptable to the State.
4. Reconcile individual participant accounts to the general ledger account balances monthly
5. Strictly adhere to the specific input requirements of the State when transmitting the bi-weekly information to the State system to initiate or otherwise change participant deductions related to the plans. The State shall provide 30 days written notice to the TPA for any change to the format of the electronic form submission data.
6. Compute the amount of transfers between investment options, adjust the amounts allocated to each investment option, and report this information to the State monthly
7. Process employee and employer contributions and allocation information and wire transfers from the State's custodial account to the investment providers. All exceptions should be flagged and brought to the attention of the State.
8. Establish a forfeiture account for non-vested employer contributions in the 401(k) Plan
9. Develop and implement procedures for dealing with situations where the State payroll cannot provide accurate, timely or complete data
10. Wire transfer appropriate amounts to the individual investment providers on the same day it receives the funds from the State (Wires are done early in the day). For each failure to meet a posting deadline, unless due to a failure beyond the company's control, the TPA must make participant accounts whole for the delay.
11. Suspense items when an employee or employer contribution is made and, due to the lack of sufficient information or other causes, it is unclear how it should be processed. TPA will maintain a subsidiary record of all suspense items and research and resolve them within ten business days. The State will provide assistance as necessary to resolve suspense items.

In the event 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 if the TPA caused the suspense item to occur, the TPA must contribute the difference between the initial contribution and the price of the investment when it is actually purchased. In the event the investment value has gone down, the entire initial contribution will be utilized to purchase the investment at its current price so that there is no gain or loss to the TPA. TPA shall maintain and report to the State a monthly suspense account balance reflecting all unpaid and uncleared transactions with corresponding occurrence dates. TPA shall not be responsible for errors made or failure to provide information by participants or investment managers.

**Contractor Response to Task II-C:**

CitiStreet confirms that all the processes above are currently being performed.



## III. Administration

- A. Overall Information Coordination – Ongoing review of all publications, manuals, procedures, web site, phone system, etc to insure that information is up to date and internally consistent. Ensure that each participant's account complies with the applicable plan provisions and federal regulations and that all forms and authorizations are complete and on file.

**Contractor Response to Task III-A:**

CitiStreet has incorporated a large number of procedures and a strong system of control to insure integrity and accuracy. Our daily processing involves strict adherence to established procedures, all of which are well documented for consistency of administration across our client base. Some of the controls we use to ensure timeliness, include:

- Ongoing training for our plan administration team to keep them current with new tools and techniques available
- Systems edits and procedures to ensure transmissions are sent timely and accurately.
- Surprise plan administration audits to ensure compliance with defined procedures.
- Close contact with the legal department to ensure all new legislation and regulations are incorporated into the daily processing and system of control. Also, legal helps to periodically review existing procedures to ensure compliance.
- An annual review of authorizations is conducted at the sponsor level.

To help accomplish these controls, we have many reports that give us the information necessary to perform these tasks. The reports are generated from our record keeping system, the plan's custodian and other peripheral systems that provide the total system of control.

CitiStreet focuses on automating our services whenever practical and feasible - this increases timeliness and accuracy. During the initial setup of the State's plan, we will secure the appropriate authorizations for the proper execution of transactions. Routinely (at least annually) we verify that the authorizations are still valid. We have an array of systematic quality controls and plan specific edit areas throughout the recordkeeping system. There are three levels of control: the plan resume level (plan rules), the participant level (participant rules), and the transaction level (payroll/data transfer).

- **The Plan Resume Level:** The Plan Resume, or Plan Record, holds the plan specific rules. It is set up during the data conversion phase and is fully tested throughout the system and acceptance test phases. It is accessed by every transaction type upon editing and posting participant data to assure the transaction is in accordance with plan rules and is within the timeliness standard we have agreed to.
- **The Participant Level:** Some transactions need additional editing at the participant level such as withdrawal amounts or frequencies. These edits are built into the interactive voice response system script and Participant Service Representative workstation modules to ensure that only valid transactions are accepted and processed. Further, the participant service workstation is also rules based, and will prevent invalid transactions.
- **The Transaction Level:** Client payroll input is edited using the plan record and the contribution/loan repayment edits that exist at the transaction level. On occasion, CitiStreet has programmed customized edits for the client to compensate for edits missing in their (internal) payroll system.

- B. Procedures Manuals – Prepare and maintain a customized manual of administrative policies and procedures governing all aspects of the Plans and provide copies to Michigan for approval. The final approved manual shall be available prior to the targeted transition date.

**Contractor Response to Task III-B:**

The client service team at CitiStreet will develop and maintain, for the State of Michigan, a customized administrative manual which can be made available on-line. CitiStreet will provide copies to Michigan for approval.



- C. Enrollment of New Employees – All State employees are eligible to participate in both the 401(k) and 457 Plans at the time of their hire date. All new employees hired after March 31, 1997 are enrolled in the 401(k) Defined Contribution Plan as required by state statute. These employees will receive the employer four percent (4%) basic contribution starting with their first pay. They may begin contributing to the 401(k) plan as soon as administratively feasible, and then will receive the employer match contributions, up to three percent (3%) of each pay. Contributions will be sent to the TPA every other Thursday, the week after the end of each pay period by wire. Detailed breakdown of each payroll wire will be sent to the TPA at least two(2) days before the wire.

The State anticipates adding Automatic Enrollment in the 401(k) Defined Contribution Plan as of January 1, 2008 to the extent permitted by law. This provision would need to be incorporated into plan administration, publications, web site, phone system, training and other aspects of the plan as needed.

#### **Contractor Response to Task III-C:**

CitiStreet is a strong proponent of automatic enrollment and, in fact, we have that feature in our own employee 401(k) plan. Twenty-two (22) of CitiStreet's clients utilize automatic enrollment. Once a new Defined Contribution employees census information is received via the bi-weekly demographic file, a PIN and enrollment kit will be sent notifying them that they will be automatically enrolled in the plan as set forth in the plan document unless the employee makes a positive election to decline enrollment in the plan.

In order to satisfy the requirements of the tax code, automatic contributions are considered valid to the extent that the employee is given adequate notice of the election as well as a reasonable period of time to elect out of the provision. CitiStreet will provide comprehensive support for the State as it relates to automatic enrollment provisions in your plan.

- D. Loan Administration – The Loan Policy Statement can be found on the website at <http://stateofmi.csplans.com>. The TPA shall be responsible for loan approval and for processing and keeping track of loan defaults for the Plans, currently only the 401(k) Plan has this option. Loan application process must be made available online and through the automated and manual phone systems. Loan payments must be made within two business days of receipt of a completed application. The TPA must be able to provide loan modeling and generate the loan application, promissory note and truth in lending disclosure forms. If payment is not received for a loan, the TPA shall send warning notices at 30 and 60 days and a default notice at 90 days (exceptions apply for military personnel). Monthly reports shall be sent to the State reflecting loan defaults for that month. Participant may have multiple loans, as many as seven (7), each with a \$1,000 minimum. For participants who are on leave of absence or layoff or upon termination, the TPA must be able to accept payments directly from participants. Terminated participants and participants not on payroll may not initiate loans. Option to initiate loan program in the 457 Plan also.

- (1) Describe in detail the loan processing service you will provide to the State.
- (2) Describe your capability to handle up to seven loans per participant.
- (3) Describe the flexibility in your loan repayment processing (i.e., additional payments, missed payments).
- (4) Describe any other features and/or limitations of the loan system not detailed above.

#### **Contractor Response to Task III-D:**

- 1) Following are the various processes related to loan request, modeling, application and fulfillment.

##### **Loan Request:**

The preferred method for loan issuance is what CitiStreet refers to as "noteless loans." This allows participants the ability to request a loan and receive a promissory note, truth in lending disclosure statement, and check mailed within two days. The participant's signature on the check completes the contract. Participants initiate noteless loans by accessing the voice response system, Internet or through a Participant Service Representative.





Bi-weekly CitiStreet will transmit new loan information directly to the payroll system of the State. This will initiate the deduction process for new loans or stop the deduction for paid loans.

**Loan Inquiry and Modeling:**

Participants interested in a loan may use the voice response system, Internet and participant services center. They can either use the system's modeling capabilities over the voice response line, Internet or contact a Participant Service Representative to assist with loan modeling. Loan modeling allows the participants to initiate various loan scenarios determined by the amount of the loan and the time requested to repay the loan.

**Loan Processing:**

Participants can process a loan through either the voice response system, Internet or a Participant Service Representative. Once the participant processes the loan, a check and disclosure statement goes to the participant within two business days. The loan transaction information is sent to payroll to begin deductions.

**Loan Payoff:**

To repay the loan through payroll deduction, the State will send a loan repayment transmission to CitiStreet. The State will wire the gross dollar amount on the file. This transmission goes through an edit process to verify that the total loan repayment matches the current totals on our system. Once the edit is complete, CitiStreet reconciles the total accepted amount to the gross file amount. Once the wire is received, loan repayments post to our system. This process repeats until the loan is paid in full.

Participants can also repay their loans in full, at any time, by sending a bank check for the outstanding amount directly to CitiStreet. Once the check is received, it is posted to our system and is applied to the participant's outstanding loan balance. CitiStreet then transmits the loan information to the State's payroll. The transmission indicates that the loan was paid in full and payroll deductions cease.

**Loan Maintenance:**

To remain in compliance with Loan regulations, we have a legal team that keeps us current on new legislation and reviews how our system processes loans from the defined contribution plans. We issue default warning letters at 30, 60 and 90 days after payments have been missed and then default accordingly. We can provide as much or as little detail as you would like to be assured that the loans would be in compliance with current regulations.

**(2) Multiple Loans:**

Multiple loans are also a feature of our record keeping system. Each loan is assigned a payroll identification number that would be included in the transmission between the plan sponsor's payroll system and our system. This number is used to match loan repayments with their respective outstanding loan balances. Number of outstanding participant loans will be determined by the plan sponsor and set forth in the plan documents.

**(3) Additional Payments:**

Our record keeping system is fully capable of accepting additional loan payments that are not a part of the regular loan payment schedule from the employer's payroll transmission. These additional payments will be applied to the participant account, in accordance to the amortization schedule set at the time of loan issuance, and we will transmit updated balance information to the plan sponsor's payroll system.

**Missed Payments:**

If we do not receive expected loan repayments within the required timeframe (i.e. 45, 90 days), default notification letters are mailed to the participant advising them of the default provisions. If loan repayments are still not received within the maximum allowable time frame, CitiStreet currently identifies these loans and reports them to the State for approval to default, in order to prevent defaulted loans for participants on Military Leave. If the State can provide a Military Leave Code and would prefer CitiStreet to automate the loan default process, CitiStreet would be happy to do so. Loan default reports can be provided to the State at each point in the warning/default process. Once an actual default occurs, the outstanding loan amount is considered a deemed distribution for the current tax year. As such, the participant will receive a Form 1099-R for filing purposes, which indicates the amount of the defaulted loan. The defaulted loan will reduce the number of future loans available, as well as any future loan availability amount, until the defaulted loan is paid back in full. Defaulted loans that were issued after January 1, 2002 will continue to accrue additional interest until the loan is paid in full.



(4) The State currently allows an employee to have up to seven loans outstanding. CitiStreet via the bi-weekly payroll files sends a combined repayment amount for all outstanding loans. There are no limitations not detailed above.

- E. Hardship/Unforeseeable Emergency Distributions – The TPA shall review all applications for both the 457 and 401(k) Plans and approve or reject request for distributions according to each Plan's provisions and policies/procedures established by the State and federal laws. Approved payments must be made within three (3) business days of receipt of complete hardship application. If the participant disagrees with the TPA's determination, s/he may appeal the decision to the State. The application for hardships and unforeseeable emergency distributions can be found on the website at <http://stateofmi.csplans.com>.

- (1) Describe your process for fully administering hardship and unforeseeable emergency distribution requests including the approval and qualification process for the State. Be specific about any role the State will be required to play.

**Contractor Response to Task III-E:**

CitiStreet establishes up front edits to determine if a participant is eligible for a hardship distribution. The participant must have a balance in their account subject to hardship withdrawal in order to request information or an application for a hardship withdrawal. The participant will be able to view the amount of their account that is available for a hardship withdrawal by speaking to a Participant Service Representative, calling the information line or through the Internet. Upon receipt of a hardship application CitiStreet will review the application to determine if the participant is eligible for a hardship withdrawal. We review with our legal advisors to determine if the request meets the requirements. If the request was denied, we contact the participant and inform them of the decision and the reason that it was not approved. If more information is requested, we seek additional information and report back to the State.

- F. Traditional Catch-up in the 457 Plan – The TPA is responsible for calculating the maximum amount available for the three-year catch-up provision and monitoring the process so that the limit is not exceeded. Contractors should confirm their understanding of this requirement.

**Contractor Response to Task III-F:**

We understand and agree to this requirement. Our system has an indicator to tell us that the person is eligible and for what amount. For the 457 deferred catch-up, we enter the amount available for catch-up if a participant has elected that option. Our system automatically stops contributions after the contributions have reached their limits. However, if for some reason the limit has been exceeded, we have a report that will flag those individuals and we issue excess deferral checks no later than the first quarter of the following year.

- G. Termination Distributions – After 30 days after termination of employment and receipt of appropriate paperwork from the participant, the TPA will issue distributions in the form of monthly, quarterly or annual payments, lump sum distributions, rollovers or transfers. For lump sum payments and rollovers, payment shall be made within five (5) business days after receipt of completed distribution forms. For lump sum payments and rollovers, the TPA must be able to make an electronic transfer of funds. The TPA must be able to provide direct deposit for systematic payments. The Guide To Termination and Retirement Distributions can be found on the website at <http://stateofmi.csplans.com>.

- (1) Describe your system capabilities to process systematic payment distributions. Is payment made on a pro rata basis across all investment options? Can a participant elect systematic payment from specific fund(s)?

**Contractor Response to Task III-G:**

CitiStreet is able to handle systematic payments and installments. Once the request for systematic payment or installment is received and approved, we will process the installment at the frequency requested by the participant.

Payment is made from the Stable Value fund and then pro rata across all funds.

- H. Annuity Distributions – The TPA must have the capability to administer an annuity purchase program, if the State decides to add this option in the future.





- (1) Describe how you will be able to offer the annuity product at institutional rates. Describe the product in detail and how it will be offered.

**Contractor Response to Task III-H:**

With the **CitiStreet Income Solutions® Program**, offered through Hueler Investment Services Inc., your retired participants can have a predictable income stream – one they will not outlive – and, moreover, one that may potentially provide for their beneficiaries.

The Income Solutions program, by offering access to institutionally priced, immediate fixed annuity products, lets your participants exchange all or a portion of their plan account balances for a predictable monthly income to pay for essential living expenses during retirement. Participants can also elect an inflation adjusted option.

**Service Highlights**

CitiStreet has built convenience, accessibility and ongoing support – along with rich information resources – into the Income Solutions program. Your plan participants can:

- Access Income Solutions via the participant website or over the phone with a CitiStreet Retirement Counselor
- Complete account profiles and receive annuity quotes on the Income Solutions Web site.
- Receive e-mail notifications of pending quotes within 24-48 hours of request
- Complete distribution processing over the phone with a CitiStreet Participant Service Representative
- Receive overnight delivery of annuity application
- Obtain immediate funding of annuities via plan distribution

One of the major advantages of the Income Solutions Program is that participants receive institutional pricing that is competitively bid on by the insurance companies. There is no fee to the plan sponsor for this program and participants will pay only 2.5% of the purchase amount. This is considerably less expensive (average 6% to 8%) if they elected to purchase an immediate annuity from a retained insurance sales representative.

- I. Accounts for terminated participants – After 30 days after termination of employment, the TPA shall move all unvested balances to the forfeiture account. Vested balances shall be moved to a 100% vested source in case of re-hire of partially vested participants. If the total vested market value of the account is less than \$200.00, the balance of the account will be distributed to the participant as a lump sum distribution within 90 days after termination. Contractors should confirm their understanding of this requirement.

**Contractor Response to Task III-I:**

We understand and agree to this requirement.

Currently, CitiStreet runs a Monthly job to sweep unvested balances to the forfeiture account. On the 15<sup>th</sup> business day of the month the small balance sweep is run to payout lump sum payments of balances less the \$200.00.

- J. Required Minimum Distributions (RMD) – The TPA is responsible for the calculation, notification, and distribution of RMDs and to provide a summary report annually to the State. Contractors should confirm their understanding of this requirement.

**Contractor Response to Task III-J:**

We understand and agree to this requirement.

In administering annual required minimum distributions for the plan sponsor, CitiStreet identifies (via system-generated report) each affected participant, and will notify them in writing of their distribution requirements for the year that they will turn age 70 ½ and all subsequent years. Each participant can choose to distribute that amount at any time during the year by either contacting our voice response system to speak with a participant service representative, or by requesting the appropriate form through the same media (depending on the plan design).



Before year-end, the plan sponsor's plan administration team will review the status of each affected participant's account to determine if the required minimum distribution amount has been satisfied. If the distribution requirement has not been satisfied, CitiStreet will process the withdrawal (full or remaining) by year-end and mail the participant a check for the amount of the distribution. This ensures that all participants will meet their distribution obligation.

Due to the Pension Simplification Act, beginning in 1997, an active participant over the age 70  $\frac{1}{2}$  is not required to take a minimum distribution, but will still be notified by CitiStreet of their entitlement to begin receiving such payments if they so choose.

- K. Fees – The TPA should have the ability to charge approved fees to participants' accounts, either dollar or percent fees. Contractors should confirm their understanding of this requirement.

**Contractor Response to Task III-K:**

We understand and agree to this requirement.

CitiStreet has the capability to make these deductions as they are currently taken. The State of Michigan Administration team will manage all debits to participant accounts including fees. Fees posted to participants are differentiated by transaction type and usage codes. Reports reflecting the nature of the fee can be provided. These reports will be available through the State's Plan Administration Team and through the State's Sponsor Connect Web site.

The deduction of administrative fees will be fully disclosed and reported to participants in their statements.

- L. Maintain Beneficiary Information – The TPA will take charge of all historic beneficiary information, some in hard copy, some on microfiche and some in electronic format. The TPA will be responsible for collecting and updating all beneficiary data. All new beneficiary information will be kept in both electronic and paper form and will be processed within five (5) business days of receipt.

- (1) Describe the process you use to track and maintain employee beneficiary data.

**Contractor Response to Task III-L:**

Depending on how beneficiaries are currently held, we have multiple options that may be established based on mutually agreed upon procedures. If beneficiary data is electronic, we can convert the data to our recordkeeping system. If the data is imaged, we may be able to convert this to our imaging system to the extent that applicable law and the Plan document permit, we also offer the ability for certain participants to add and update beneficiaries via the web. We also accept paper files.

- M. Payroll interface-The State central payroll is run bi-weekly with Sunday as Day 1 of each pay period and Day 12 is the pay date. On Day 10, the State sends the TPA the detailed payroll withholding information. On Day 12, the State wires the funds to the TPA/Custodian and the funds are credited to the participant accounts and invested at the close of business that day. Employee demographic changes are sent to the TPA on Days 5 and 10. The TPA sends the State deferral rate changes on Day 10 for the State to update deferrals for the following payroll period. See Exhibit A for the current file formats. Changes may be needed to these formats before being put in place.

The State contemplates no major change to its current payroll system to accommodate the TPA's internal system requirements. However, because there will be changes in file transfers and updating functionality, some changes to the State's payroll system are inevitable. The TPA needs to accommodate hard copy payroll files for 87 non-central payroll participants as well as other manual edits, adjustments, and indicative changes to the contribution input file.

- (1) Describe your administrative process for correcting payroll data and performing edits on incomplete or missing data.
- (2) Describe your ability to handle hard copy payroll files for 87 non-central payroll participants.



- (3) The State is considering submitting the contribution file for these 87 participants electronically if you have a software product that they can utilize. Please describe your ability to provide this software to the State.
- (4) Describe your recordkeeping/administrative capabilities for handling negative data from the payroll files (i.e., negative compensation and contributions).
- (5) To ensure that the correct deferral amount for each participant is accurate, the State may send contribution files to you in both dollars and percent so you can verify that the correct amount is contributed based on the participants' salary. Describe your capability to accept this information and how you will verify the contribution amounts.
- (6) You will ensure that payroll files be processed on a timely basis. When will you contact the State if you were expecting a payroll file, but did not receive it?
- (7) Describe how your payroll contribution reports identify participants contributing up to the current maximum contribution, and identify participants in catch-up status.
- (8) Describe the turn around time for notifying the State when employees reach their contribution limits.

**Contractor Response to Task III-M:**

- (1)
  - The State sends payroll file to CitiStreet.
  - Payroll data is edited by CitiStreet using the plan record and the contribution edits that exist at the transaction level. The editing process is a separate "module" on our recordkeeping system that allows CitiStreet to verify that the total dollar amounts match the amount we expect to receive prior to posting any data. CitiStreet will program customized edits for the client to compensate for edits missing in their payroll system. Some typical payroll edits include:
    - Contributions received for participants not enrolled
    - Negative contribution received for participants with no balance
    - Contribution received for participant who is terminated
    - Plan totals do not match participant records
  - If there are any data discrepancies, CitiStreet will work closely with the State's payroll contact to communicate and resolve any errors and/or omissions. We will post 100% of the payroll submissions when received in good order.
  - Once the editing process is complete, and any data exceptions resolved, CitiStreet will provide the State (in writing) the total amount to be wired; this typically occurs on the day prior to wiring funds to ensure that the assets are invested on the same day.
- (2) CitiStreet currently processes the 87 non-central payrolls via hard copy files. Once a hard copy file and wire is received the same edit process described above is initiated to identify and resolve any data exceptions where upon the assets are invested the same day.
- (3) CitiStreet has various ways to receive payroll information over the Internet. CitiStreet requires all data transmissions to use industry standard strong encryption. CitiStreet is also capable of receiving information via other electronic media.
- (4) We process negative contributions as part of our regular payroll processing cycle. As part of our initial edit, we verify the negative contribution.
- (5) CitiStreet can create a custom payroll edit which would compare contribution files in dollars and percents in order to verify the correct amount is contributed based on the employees salary. Any exception items will be identified and resolved with the State prior to posting.
- (6) CitiStreet will assign the State a payroll contact as part of our Client Service Team. Typically, your CitiStreet Client Service Team will maintain a payroll calendar to ensure the proper timing of payroll records is always maintained. If CitiStreet were not to receive the contribution data according to schedule, CitiStreet's payroll contact on the Client Service Team would notify the appropriate person at the State.



(7) The system is designed to compare the aggregate contributions made to date, under the plan, with each payroll as it is submitted. If the dollar limit is exceeded during processing of payroll, the excess contributions are rejected and returned to the client.

Our system has an indicator to tell us that the person is eligible and for what amount. For the 457 deferred catch-up, we enter the amount available for catch-up if a participant has elected that option. Our system automatically stops contributions after the contributions have reached their limits. However, if for some reason the limit has been exceeded, we have a report that will flag those individuals and we issue excess deferral checks no later than the first quarter of the following year.

(8) The system is designed to compare the aggregate contributions made to date, under the plan, with each payroll as it is submitted. If the dollar limit is exceeded during processing of payroll, the excess contributions are rejected and returned to the client. It is possible because of timing issues for a participant to exceed their limit. If that occurs, CitiStreet typically notifies the employer before the next payroll is produced.

CitiStreet will work closely with the State's payroll contact to communicate this notification. Depending on how the payroll communication is established, it can be via a regular feedback file or through an alternative approach that is predefined and agreed upon with the employer.

- N. Tax Reporting and Withholding – The TPA is responsible for mandatory federal income tax withholding and optional state income tax withholding from distributions. After year-end, the TPA will handle participant 1099 forms and related federal tax filings. The TPA shall be solely responsible for any tax penalties and/or interest that may arise due to errors it made in tax reporting or forwarding of funds to the appropriate government authorities.

**Contractor Response to Task III-N:**

CitiStreet, working with the Custodian, State Street Bank, provides complete 1099 reporting services. At the time of a distribution, participants receive a distribution statement that includes all necessary tax information. The information contained on their distribution check stub is mirrored by the information on the 1099R. By January 31st of the following year, CitiStreet mails 1099Rs to each participant. All required tax forms are produced at year-end for participants and at the appropriate intervals with the client's employer tax ID number on the appropriate tax form.

For both Federal and state withholding, CitiStreet will deposit the taxes withheld, file the necessary forms, and reconcile the amounts reported to the withholding agencies to the amounts reported to the participants. We participate in the IRS combined filing program.

- O. Elective Deferral Limit Monitoring – The TPA will monitor annual dollar contribution limits including 457 Plan traditional catch-up and age 50+ catch-up limits. Also, TPA will monitor contributions monthly and notify Defined Contribution Plan participants to insure that they do not reach the limit too soon in the year, resulting in missed employer matching contributions.

**Contractor Response to Task III-O:**

The system is designed to compare the aggregate contributions made to date, under the plan, with each payroll as it is submitted. If the dollar limit is exceeded during processing of payroll, the excess contributions are rejected and returned to the client.

For over 50 catch-up, we verify the participant's age. Our system has an indicator to tell us that the person is eligible and for what amount. For the 457 deferred catch-up, we enter the amount available for catch-up if a participant has elected that option. Our system automatically stops contributions after the contributions have reached their limits. However, if for some reason the limit has been exceeded, we have a report that will flag those individuals and we issue excess deferral checks no later than the first quarter of the following year. With respect to normal retirement age calculation of catch-up, the contribution amount must be coordinated with the payroll agency and/or participant. Clearly, if working with the participant, prior year W-2 data can move the process on quickly. We should note that it would be CitiStreet's preference, as is the case with State of Michigan, to have all unused prior year deferral data posted to our recordkeeping system.



P. Administrative Reporting

1. A quarterly review of Plan statistics and service levels available to the State within six weeks of each quarter end. (See Exhibit F)
2. A monthly statistical report shall be available to the State within ten business days after each month end. (See Exhibit G)
3. A monthly report of fee calculations and a reconciliation of all charges to participant accounts within 10 business days after each month end.
4. The TPA shall attempt to update address records for terminated participants whose statements were returned to the TPA. The TPA shall provide a quarterly report to the State detailing all statements that were returned due to incorrect or incomplete address where the TPA was not able to update the address records.
5. Additional special purpose reports shall be prepared and maintained as requested by the State.
  - (1) Provide samples of statistical usage information regarding Voice Response System (CRS), Internet, and Customer Service Center. As part of the contract arrangement, service standards will be developed and incorporated into a quarterly report card. Please describe your capabilities to provide these reports and other statistical information to the State. Provide samples. See Exhibit G.
  - (2) As part of your service, do you provide quarterly financial and non-financial data by participant? Provide samples of your report.
  - (3) Describe the standard reporting package that you would provide the State (provide samples).
  - (4) Will the State be able to generate the standard reports on-line?
  - (5) What types of demographic participant data will you be able to provide to the State?
  - (6) Describe your flexibility to produce ad-hoc plan level reports.

**Contractor Response to Task III-P:**

1. A quarterly review of Plan statistics and service levels available to the State within six weeks of each quarter end.
2. CitiStreet delivers a monthly statistical report to the State on the 10<sup>th</sup> business day of the month. The report details specific agreed upon transaction type volumes and various other statistical information. Along with the statistical report a report of the month end market values is also sent by the 10<sup>th</sup> business day.
3. CitiStreet will provide a report of fee calculations and all charges applied to participant accounts by the 10<sup>th</sup> business day.
4. CitiStreet will maintain a report of all returned quarterly statements. When a forwarding address is received from the US Postal Service for terminated participants, the address will be updated on CitiStreet records and the State will be informed of the change. Returned statements for active participants will be reported back to the State for verification of the address. Currently CitiStreet performs a semi annual address verification for terminated participants with an outside vendor.
5. CitiStreet dedicated staff will work with the State to create and deliver special purpose reports as requested by the State.

5 (1) Please refer to the **enclosed** sample Service Review.

In Addition, in early 2006, CitiStreet deployed an exciting new reporting capability in Sponsor Connect<sup>SM</sup>. In partnership with Business Objects, the Sponsor Connect<sup>SM</sup> reporting feature expanded to include not only participant and plan data, but also call center, participant internet, transaction processing, and participant research data for drag and drop report development with high-end graphical / chart output.

Further, Sponsor Connect<sup>SM</sup> now offers an Executive Dashboard section which will quickly provide via user-friendly graphical displays critical plan and service information, with the capability to deep-dive into trend analysis. Baseline Executive Dashboard information will include:



- Online “dashboards”
- Quick, customized view in graph format provided on Sponsor Connect provides a single source for concise summaries of operational metrics and other key data
- Historical trend analysis
- Four standard “dashboards” are available
  - Plan assets by investment as of last valuation
  - Participant status summary pie chart as of last month end
  - Contact table containing stats as of last month end
  - Transaction table containing transaction counts for the last calendar month

5 (2) Please refer to number 2 above.

5 (3) The following table details our standard administrative reporting package included as part of our services:

**Report Name: *Issues/Status Report***

**Purpose:** This report serves as a status report for the client's plan.

**Frequency and Timing:** Generated as needed or as scheduled.

**Report Name: *Service Review***

**Purpose:** This is a tailored report that CitiStreet will develop with the State of Michigan to give feedback to the county on how the program is progressing.

**Frequency and Timing:** These reports are generally available when all statistical information has been gathered, usually 45 days after the quarter end.

**Report Name: *Monthly Reconciliation***

**Purpose:** This is a periodic reconciliation of participant and trustee activity. The reconciliation includes beginning balances, transaction detail, earnings, prior period adjustments, and ending balances.

**Frequency and Timing:** Monthly. Report sent 10 –20 business days following month end.

**Report Name: *Participant Valuation Summary***

**Purpose:** This report summarizes participant financial activity and other participant data for a specified period. This report can be used by the client to examine participant detail, account balances, fund information and plan totals.

**Frequency and Timing:** Monthly. Report sent 10 business days following month end and is currently sent with the monthly reconciliation.

**Report Name: *Quarterly Statements***

**Purpose:** This is the States' copy of participant account statements that includes a summary of opening balances by fund, transaction detail, earnings, and closing balances. The statement also includes indicative data and other financial information.

**Frequency and Timing:** Quarterly. Statements sent 10 business days following quarter end. This is CitiStreet's number one deliverable event.

**Report Name: *Annual 70 ½ Automatic Payout Report***

**Purpose:** This report details those participants who will receive 70 ½ warnings letters as well as subsequent payouts in accordance with the client's plan provisions.

**Frequency and Timing:** Annually. Report delivered as scheduled.

Please refer to the **enclosed** sample Service Review.

5 (4) Yes. In early 2006, CitiStreet deployed an exciting new reporting capability in Sponsor Connect<sup>SM</sup>. In partnership with Business Objects, the Sponsor Connect<sup>SM</sup> reporting feature expanded to include not only participant and plan data, but also call center, participant internet, transaction processing, and participant research data for drag and drop report development with high-end graphical / chart output.

Further, Sponsor Connect<sup>SM</sup> now offers an Executive Dashboard section which will quickly provide via user-friendly graphical displays critical plan and service information, with the capability to deep-dive into trend analysis. Baseline Executive Dashboard information will include:





- Online “dashboards”
- Quick, customized view in graph format provided on Sponsor Connect provides a single source for concise summaries of operational metrics and other key data
- Historical trend analysis
- Four standard “dashboards” are available
  - Plan assets by investment as of last valuation
  - Participant status summary pie chart as of last month end
  - Contact table containing stats as of last month end
  - Transaction table containing transaction counts for the last calendar month

5 (5) Staying in touch with your plan operations is critical to your ability to make strategic benefit decisions. CitiStreet makes this possible through state-of-the-art communication channels. Sponsor Connect<sup>SM</sup>, a central online entry-point to CitiStreet’s array of reporting and management tools, gives you the easiest access to information and the most convenient ways to manage your plans. The program is a user-friendly, menu-driven application easily supported by any personal computer with web access.

#### **Plan Access -**

##### ***Online Plan and Participant Information***

CitiStreet’s user-friendly, internet-based solution delivers your plan and participant recordkeeping information right to your desktop. Featuring the highest level of security through your own unique access code, Plan Access ensures the integrity and confidentiality of your data. The comprehensive, real-time information available through Plan Access includes:

- Plan-level data, such as plan summary, balances, fund information and fund prices.
- Participant-level data such as demographics, balances, investment elections, loan information, transaction history, deferral rates and disbursement information.

#### **Reporting –**

##### ***Customizable Reports***

Available through Sponsor Connect, Reporting is a report generation tool containing valuable plan and participant-level detail. Reporting provides you with information that complements the standard reports already available to sponsors. Reporting also allows you to format the data in a way that best suits your needs and create reports on your own time, at your own convenience. Through Reporting, you can:

- Access a library of standard management reports.
- Customize reports by selecting from a wide range of information.
- Format, print or download reports to spreadsheets on your own PC.
- Select graphic presentations of your reports for easier viewing.
- Save or re-run reports at any time.

Below is a sampling of the 200+ already created reports that you will be able to easily request:

- Participation percents by group/division or bargaining unit
- Participation percents by gender
- Participation percents by salary ranges
- Number of participants contributing to specific investments
- Average participant balance
- Average terminated participant balance
- Number of participants making maximum contributions
- Term deferred participants
- Deferral percentages
- Investments by fund with balances
- Brokerage Account participants and balances
- Beneficiaries
- Current balance over \$5000
- Transfers between funds
- 70 1/2 participants
- Labels for various mailings



With Reporting, you can monitor important plan trends, such as plan participation, investment allocations, participant demographics and inter-fund transfers, among others. Ultimately, this information can help manage your plans more efficiently, including creating more targeted employee communications.

- **Access to Project Management Section**
  - Allows client to view implementation and ongoing project plans
  - Status reports are stored here for easy viewing and verification
  - Outstanding issues are updated until complete
- **Access updated plan sponsor newsletters**
- **Access updated transaction statistics**

5 (6) Most adhoc reports are available through our Sponsor Connect<sup>SM</sup> tool, Report Writer. They are available the same day that the information is requested. If there is a special request, the Plan Administration team can work with the State of Michigan to either develop a unique adhoc report on Sponsor Connect<sup>SM</sup> or run a separate report outside of Sponsor Connect<sup>SM</sup>. Reports outside of Sponsor Connect<sup>SM</sup> usually take 1 –2 days depending on the nature of the request.

**Q. Administrative Oversight**

1. Continuing Education – The TPA shall sponsor the State's participation at conferences, seminars, etc., including, but not limited to, the annual conference presented by the National Association of Governmental Defined Contribution Administrators. Sponsorship would include the cost of registration and materials, and travel and per diem expenses for up to two (2) Michigan staff per event, not to exceed three (3) events per year.

**Contractor Response to Task III-Q-1:**

We would gladly sponsor the State's participation at conferences, seminars and other educational activities. This will be built into our budget.

2. On-going Training – As requested by the State, the TPA shall provide qualified personnel to conduct training sessions for Michigan staff on the TPA's processing systems and methodologies.

(1) Describe the training that will be provided to the State's staff.

**Contractor Response to Task III-Q-2:**

CitiStreet will gladly work with the State and its staff to train them on any issue or task related to the plan. CitiStreet has conducted a number of "train the trainer" meetings throughout the country with other defined contribution programs. CitiStreet has three local office staff on site currently and will be adding two (2) more at the State who are always available to conduct additional training on any issue or task related to the plan

3. The TPA shall inform the State within 30 days of recently enacted federal tax laws and regulations that may have an impact upon the recordkeeping and administration requirements of the Plans.

**Contractor Response to Task III-Q-3:**

We understand and agree to this requirement.

CitiStreet's Legal Division and Fiduciary Control Units are responsible for assessing new or pending legislation and regulatory changes affecting defined contribution plans. CitiStreet continually monitors changes in applicable law and regulations to ensure that our qualified plan compliance methodology is kept current and accurate.

CitiStreet's recordkeeping system is current and in compliance with all new federal legislation.

CitiStreet provides you with timely updates on legislative and regulatory matters through three different channels:

- We publish a quarterly legislative update called **Learn**, which we provide online as part of our quarterly Sponsor Forum newsletter, and Special Alert Bulletins for time sensitive industry issues, such as tax law changes. Our most recent Sponsor Forum newsletter can be found online at [www.e-sponsorforum.com/govt](http://www.e-sponsorforum.com/govt).





- Your dedicated administrative team contacts you proactively to discuss the impact of proposed regulatory changes and any potential implications for your plan's participants, such as sensitive industry issues.
- Legislative and regulatory updates can be found at CitiStreet's Internet site [www.CitiStreetonline.com](http://www.CitiStreetonline.com), under the topic News /Legislation Updates. Our most recent update, **CitiStreet e-lets** - our new monthly online legislative publications, can be found at [www.CitiStreetgovtelert.com](http://www.CitiStreetgovtelert.com). These publications will provide our plan sponsors with timely updates on regulatory and legislative issues pertaining to the pension and employee benefit services industries.

We also utilize quarterly service reviews as an opportunity to inform and discuss proposed regulatory and/or legislative changes and their potential impacts on your plan and participants.

***PPA Customer Web Cast Gives Sponsors Timely Information About New Guidance***

As part of our ongoing commitment to deliver the latest information about the Pension Protection Act (PPA) and how this legislation might impact our customers' retirement plans, CitiStreet hosted a Web cast attended by more than 70 of our customers on January 19. Sandy McCarthy, President of Retirement Services, highlighted CitiStreet's proactive approach to PPA and Tina Campbell, Senior Vice President and Associate General Counsel, presented an overview of the recent IRS and DOL guidance on early distributions, rollovers for non-spouse beneficiaries, earlier vesting of employer contributions, consent period for distributions, benefit statements and more. Customers also had the opportunity to submit questions for a short question and answer session.

Please refer to the following link to view the replay of the Web cast:

<https://citistreet.webex.com/citistreet/onstage/g.php?AT=VR&RecordingID=300463899>



4. The TPA shall provide a quarterly report card detailing the summary of transactions and services provided.

- (1) Describe your service standards/ turn-around time specifically for the State of Michigan for the completion of the following transactions/services. If you fail to meet the turnaround time, provide your penalty.

TRANSACTION	Turnaround Time	Penalty for Not Meeting Turnaround Time
Issuance of Participant Statements	10 business days after quarter end	\$5,000 per day after the 10 <sup>th</sup> business day
Transaction Confirmation Statements	1 business day if transaction processed by 3:59:59 pm EST	\$1,000 per agreed upon measurement
Plan Sponsor Administrative Reports (Hard Copies)	8 weeks after quarter end	\$1,000 per agreed upon measurement
Processing Payroll Contributions	48 hours after receipt of files and wire	\$1,000 per agreed upon measurement
Processing New Loans	48 hours after the transaction has posted the check will be mailed	\$1,000 per agreed upon measurement
Hardship & Unforeseeable Emergency Withdrawal Requests	48 hours from receipt of all required and accurate documentation	\$1,000 per agreed upon measurement
Termination/Rollovers/Direct Transfers for Distribution	48 hours after the transaction has posted the check will be mailed	\$1,000 per agreed upon measurement
Fund Balance Transfers	1 business day if transaction processed by 3:59:59 pm EST	\$1,000 per agreed upon measurement
Investment Election Requests	1 business day if transaction processed by 3:59:59 pm EST	\$1,000 per agreed upon measurement
Contribution Percentage Elections/Changes	1 business day if transaction processed by 3:59:59 pm EST	\$1,000 per agreed upon measurement
QDRO Processing	5 business days after receipt of all required and accurate instructions	\$1,000 per agreed upon measurement

- (2) Identify your 1-800 number service standards:

- Average length of calls
- Average response time
- Percentage of calls requiring follow-up
- Call abort rate

**Contractor Response to Task III-Q-4:**

(2) CitiStreet's 1-800 number service standards include the following:

Average length of calls: N/A – We do not set a call length standard

Average response time: PSR - 95% of all calls answered with an average speed of twenty seconds or less. 98% of all calls answered with an average speed of thirty seconds or less. IVR - 98% of all calls answered with an average speed of three seconds or less.

Percentage of calls requiring follow-up: 0.75%

Call abort rate: IVR – 0%, PSR – 3%

5. Documentation and Retention – The TPA shall maintain all documents submitted throughout its term in both electronic and hard copy formats. These documents shall be readily available and provided as needed in a timely manner. Such documents include beneficiary designations, applications for financial hardship and other distributions, power of attorney, etc. Hard copy items shall be maintained for a period established by the State. Electronic format items shall remain available for an unlimited time.

**Contractor Response to Task III-Q-5:**

Historical information is stored online for 18 months and offline for 7 years on tape backup files according to the schedule described in our response to the question above.

The recall and restore process would be as follows:

- Establish a corresponding area in which to load the recalled version of the data.
- Retrieve the appropriate backup tapes as required.
- Load (Delete, Define, and Repro) the data from the tapes into the established area.
- Verify the data loaded is appropriately dated, is accurate and complete.

We can retrieve historical information within three to five business days

Our OLTP databases (used for participant web, VRU and for our participant service representatives) are fully replicated in a real-time basis across two different physical sites.

Our core OmniPlus recordkeeping database is fully replicated each night between two different HP UNIX SuperDome computers at two different physical sites. In addition, tape backups are created, and kept at a different separate physical facility than the primary computer for that client, and retained on the following schedule:

Daily Backups – 7 days

Year-end Backups – 7 years

All sensitive data received and/or processed within CitiStreet has strict controls regarding how and when it is printed or transmitted. Examples include information that contains a combination of full name and corresponding Social Security Number and the combination of a Personal Identification Number (PIN) and any other data pertaining to the owner of the PIN. Such restricted data is not printed on any reports except as required by regulation, (i.e., Form 1099R) and is not transmitted from CitiStreet in a non-encrypted manner. Further, Restricted Data is not stored on non-encrypted removable media (e.g., CDs, diskettes and USB keys), or provided to any employee or temporary employee who has not complied with CitiStreet's Human Resources employee background verification procedure.

6. Errors and Omissions – The TPA shall be responsible for funding participant losses, regardless of materiality, resulting from errors caused by the TPA.

**Contractor Response to Task III-Q-6:**

Confirmed. Incorrectly processed transactions will always be corrected, regardless of how much time has passed since the original transaction processing date.



7. Unclaimed Property (Escheatment)
  - a. Dormant Accounts – The TPA will be responsible for monitoring all dormant accounts, using all reasonable means to find a current address.
  - b. Unredeemed Checks – The TPA will monitor unredeemed checks, including research to determine if participant is deceased.

- (1) Describe your process for searching for missing participants and participants who have not cashed their distribution payment checks.

#### **Contractor Response to Task III-Q-7:**

CitiStreet assists plan sponsors in locating former participants with account balances by using the services of Anchor Computer Inc. Proactively during the implementation process, CitiStreet would like to send the demographic records received from the prior recordkeeper to Anchor Computer Inc. They will run those records against the United States Post Office's National Change of Address (NCOA) database and will then supply us with the current addresses or confirm the existing addresses. The NCOA database which is updated on a daily basis contains approximately 160 million records or 48 months of permanent address changes as known by the United States Postal Service.

We will perform an address search as frequently as the State would like, however we recommend that that this process is done minimally on an annual basis.

When the US Post Office returns mail, we will update our systems and provide a file with the "good address" to the State. Upon receipt of returned mail, CitiStreet can, if directed, set a "stale address" flag on the participant's account and stop mailing of future quarterly statements until a new address is received.

CitiStreet also utilizes the services of the Social Security Administration and the Berwyn Group to assist plan sponsors in location lost participants. The SSA will only provide mail forwarding and will not provide direct addresses.

CitiStreet's standard practice is to "stale date" checks that have not been cashed after six months from the time they were issued. Once a check is stale dated, the applicable assets are transferred into the holding account within the Trust. The participant and the applicable assets are then listed in the holding account reconciliation.

Once the participant has been located, CitiStreet will re-issue the check to the participant and the participant and the applicable assets will be removed from the holding account reconciliation.

#### **IV. Compliance**

##### **A. Monitor deferral limits and calculate catch-up contributions**

- (1) Describe your capabilities and time frames for monitoring maximum deferral limits and the catch-up provisions. Fully describe your administrative process for calculating 457 traditional catch-up contributions.
- (2) How do you address violations of any of the limits?

#### **Contractor Response to Task IV-A:**

(1 + 2) The system is designed to compare the aggregate contributions made to date, under the plan, with each payroll as it is submitted. If the dollar limit is exceeded during processing of payroll, the excess contributions are rejected and returned to the client.

For over 50 catch-up, we verify the participant's age. Our system has an indicator to tell us that the person is eligible and for what amount. For the 457 deferred catch-up, we enter the amount available for catch-up if a participant has elected that option. Our system automatically stops contributions after the contributions have reached their limits. However, if for some reason the limit has been exceeded, we have a report that will flag those individuals and we issue excess deferral checks no later than the first quarter of the following year.



With respect to normal retirement age calculation of catch-up, the contribution amount must be coordinated with the payroll agency and/or participant. Clearly, if working with the participant, prior year W-2 data can move the process on quickly. We should note that it would be CitiStreet's preference, as is the case with State of Michigan, to have all unused prior year deferral data posted to our recordkeeping system.

**B. Monitor and perform required minimum distributions**

- (1) Describe how you monitor §401(a) (9) required minimum distributions including:
  - Identification of individuals
  - Determination of the amount of the minimum required payment
  - Payment within required deadlines.

**Contractor Response to Task IV-B:**

In administering annual required minimum distributions for the plan sponsor, CitiStreet identifies (via system-generated report) each affected participant, and will notify them in writing of their distribution requirements for the year that they will turn age 70  $\frac{1}{2}$ . Each participant can choose to distribute that amount at any time during the year by either contacting our voice response system to speak with a participant service representative, or by requesting the appropriate form through the same media (depending on the plan design).

Before year-end, the plan sponsor's plan administration team will review the status of each affected participant's account to determine if the required minimum distribution amount has been satisfied. If the distribution requirement has not been satisfied, CitiStreet will process the withdrawal (full or remaining) by year-end and mail the participant a check for the amount of the distribution. This ensures that all participants will meet their distribution obligation.

Due to the Pension Simplification Act, beginning in 1997, an active participant over the age 70  $\frac{1}{2}$  is not required to take a minimum distribution, but will still be notified by CitiStreet of their entitlement to begin receiving such payments if they so choose.

**C. Provide assistance to Plans' auditors**

- (1) What assistance would you typically provide to the Plans' auditors, both internal and external?
- (2) What capability do you have to provide participant information to interested third parties, such as actuaries, auditors and attorneys? What kind of turnaround time can be anticipated?
- (3) Statement of Auditing Standards 70 (SAS70) Audit Sample: Please provide a current SAS70 audit of your recordkeeping system, or any other audit you have performed. Who conducts the SAS70 audit?
- (4) Confirm that you will provide the State with a copy of your SAS70 report on an annual basis and that any poor performance indicated must be corrected as required by the State.

**Contractor Response to Task IV-C:**

(1) CitiStreet will provide full support to the Plans' auditors including running all necessary reports, providing sample documentation and assisting with all questions.

(2) CitiStreet can provide participant information to interested third parties as directed by the State. We have the capability to provide any information contained within our recordkeeping system. However, in order to protect confidential participant information we will not release this data until the State has been notified and has authorized the release of the requested information. Turnaround for providing data to a third party is dependant upon the type and amount of data being requested.



Typically, requested information can be supplied to all interested third parties within five business days from the date of the request. Data on an individual participant can generally be reported in 24 hours. Data requiring special coding may take longer.

(3) Each year CitiStreet engages KPMG to perform a full SAS 70 review. We have **enclosed** a copy of our most recent SAS 70 report for your reference.

(4) Confirmed. CitiStreet will provide the State with a copy of our SAS 70 report on an annual basis and any poor performance indicated will be corrected as required by the State.

**D. Provide regulatory and legislative updates/changes**

- (1) Describe your resources to obtain legal opinions, interpretations of laws, regulations, and other matters on issues pertaining to the State's 401(k) and 457 plans.
- (2) What fiduciary responsibility does your organization assume and what fiduciary responsibility does it decline to accept?
- (3) Describe how you will ensure that you comply with the terms of the plan document and state and federal laws.
- (4) How do you ensure that your recordkeeping system is in compliance with all applicable rules and regulations?
- (5) How quickly are changes in the law reflected in the system?
- (6) Describe how your organization will comply with the Pension Protection Act of 2006.

**Contractor Response to Task IV-D:**

(1) CitiStreet's Institutional Division has a full staff of six attorneys who work closely with our plan administrators and participant service representatives. The attorneys supporting the Institutional Division of CitiStreet have over 45 years of combined experience.

(2) In its role as a recordkeeper CitiStreet generally provides non-fiduciary, ministerial recordkeeping services to benefit Plans. In this role as recordkeeper, CitiStreet does not act in a discretionary or fiduciary capacity. CitiStreet, however, is still committed to discharging each of its duties and exercise each of its powers with due care in accordance with the circumstances of the case, using the degree of care that a person of prudence would exercise in similar circumstances. There are, however, certain services and circumstances under which CitiStreet will act in a fiduciary capacity. For example, CitiStreet will serve as a fiduciary in the limited instances where we undertake to qualify domestic relations orders for clients, if they elect to secure those services through us.

(3) CitiStreet's Legal Division and Fiduciary Control Units are responsible for assessing new or pending legislation and regulatory changes affecting defined contribution plans. CitiStreet continually monitors changes in applicable law and regulations to ensure that our qualified plan compliance methodology is kept current and accurate.

The OmniPlus recordkeeping software vendor, SunGard, updates software to comply with all legislative changes. CitiStreet does have the ability to modify the software for our recordkeeping system.

(4) CitiStreet's Legal Division and Fiduciary Control Units are responsible for assessing new or pending legislation and regulatory changes affecting defined contribution plans. CitiStreet continually monitors changes in applicable law and regulations to ensure that our qualified plan compliance methodology is kept current and accurate.

The OmniPlus recordkeeping software vendor, SunGard, updates software to comply with all legislative changes. CitiStreet does have the ability to modify the software for our recordkeeping system.





CitiStreet's recordkeeping system is current and in compliance with all new federal legislation. If selected as a service provider, CitiStreet will ensure that the Plan is set up on our recordkeeping system to be in compliance with applicable State regulations.

(5) CitiStreet generally begins programming and making procedural changes when the law changes are still in the proposed phase. Our target date is to have by the time the changes become law, our programming and testing completed.

(6) **PPA Operational Milestones**--As an example of CitiStreet's leadership position in the industry, we provided solutions for the following provisions that required operational action by service providers or plan sponsors--in some cases pending IRS or DOL guidance--on or ahead of the scheduled 2006/2007 effective date:

- ***Diversification rights in employer securities/notice of importance and rights of diversification***--CitiStreet created a sample notice that our customers can distribute to their employees about diversification rights with respect to publicly traded employer securities held by a DC plan
- ***402(f) Special Tax Notice for permitted rollovers by non-spousal beneficiaries for DB and DC***--CitiStreet created and distributed a good faith notice
- ***Notice of right of participant to defer distribution***--CitiStreet created and distributed two versions: a customizable template for a safe-harbor notice and a generic good faith notice
- ***Vesting of employer contributions for DC***--CitiStreet worked with plan sponsors to identify whether total vesting will occur with a new schedule or just apply to employer money contributed after effective date, and modify plan amendments, forms, Web site and communications
- ***Vesting for DB hybrid plans***--CitiStreet is preparing to update our systems for the three-year vesting required under hybrid plans (e.g., cash balance, pension equity)
- ***Limitations on DB lump-sum distribution***--CitiStreet reviewed and confirmed that plans under our administration did not pay out lump sums in 2006 that exceed the newly instituted section 415(b) limits
- ***Participant statements for DC qualified plans***--CitiStreet made good faith programming or process changes to keep our statements in compliance with requirements, such as adding the proper notices and/or statements and displaying vesting on a quarterly basis, pending IRS guidance
- ***Penalty free withdrawals for active service members and permitted rollovers by non-spousal beneficiaries for DC***--CitiStreet is operationally ready to support plans that offer the new distributions and updated the appropriate forms

CitiStreet also developed customized "action plans" for our DB and DC customers (including a special version for the public sector) that our client service teams are using to facilitate and review possible changes to each individual plan and document future plan changes to comply with PPA. Each version categorizes PPA provisions by order of effective date, compares the current rule to the new rule, identifies the plan's current provision, and provides a checklist of specific action items necessary to comply with PPA such as amending the plan and making changes to systems and participant communications.

#### **How we deliver PPA information to you:**

##### **PPA Customer Web cast Series hosted by CitiStreet**

- Convenient one-hour sessions designed to educate plan sponsors on specific PPA provisions, recent guidance and impact to your plan
- Includes a Q&A section to give attendees opportunity to submit questions to presenters
- Recent CitiStreet PPA Web casts include:
- How Recent Guidance Might Impact your Defined Contribution Plan (January 2007)—*replay available*
- How is your Defined Benefit Pension Plan Impacted? (March 2007)— *replay available*
- Upcoming Web cast topics include:
- PPA and its Impact on Advice Programs hosted by Sandy McCarthy and Ray Martin—May 16, 2007
- Auto Enrollment hosted by Sandy McCarthy and Tina Campbell— June 7, 2007
- Managed Account Product Enhancements co-hosted by Ray Martin and Financial Engines—June 21, 2007



V. Custodial Trustee Services  
A. Process benefit distributions

- (1) Please fully describe your check distribution and electronic payment process including frequency.
- (2) Do you have a limit on the number of checks/electronic transfers available to participants who rollover their distributions?

**Contractor Response to Task V-A:**

(1) CitiStreet's check processing for its defined contribution plans are processed nightly and checks are mailed directly to the participant's address of record within 2 business days.

CitiStreet's check run schedules for periodic pension payments are as follows:

**Normal Pension Payment Cycle:** The pension payment calendar contains the scheduled cut-off dates and the mail dates for the monthly recurring payments. We request that client input is completed by the designated dates to ensure the timely processing of monthly checks. We encourage all of our customers to call or fax late changes, i.e. deaths or change of address, right up until mailing date. We are willing to pull any checks before mailing if it will help prevent later complications. Our mail dates are 3-5 mail movement dates before the first in order that retirees receive their checks on or before the first of the month.

**Special Check Run:** We process "out of cycle" monthly checks twice a week on Tuesday and Thursday evenings. We understand that issuing checks outside the regularly scheduled monthly cycle is a standard requirement in order to accommodate timely issuance of retroactive payments or late receipt of first time payments. We do not want retirees to have to wait until the next monthly cycle for a check. The turnaround time for checks processed in our special check runs on Tuesday and Thursday evenings is as follows:

- For good data received by noon Monday, checks will be mailed on Wednesday.
- For good data received by noon Wednesday, checks will be mailed on Friday.
- For small volumes of input (25 checks or less), input received on Tuesday will be included in the Tuesday check run and mailed on Wednesday. Input received on Thursday will be included in the Thursday check run and checks will be mailed on Friday.

Our check run schedules for non-periodic payments are as follows:

**Lump Sum Payments:** There are lump sum check runs every night of the week, Monday through Friday. Issuing lump sum checks is a very time sensitive process as requests for lump sum checks are typically for critical reasons and speed is of the essence. To assist in the rapid turnaround of lump sum checks, we are willing and able to receive input via fax (small volumes), magnetic tape, or through direct transmission; mainframe to mainframe. The nightly check run schedule is to allow plan sponsors to have their batch of check requests run whenever the input is ready.

**Manual Checks:** Even with all of the flexibility that our periodic and non-periodic processing schedules provide, we recognize there are still situations that require immediate attention. We accept those situations as part of our retiree services and are prepared to issue "manual" checks on a daily basis from our desk top laser check printing system. In addition, we use this system to reissue checks after stop payments. As soon as a stopped check is confirmed as outstanding, we reissue that check immediately and do not wait for our Tuesday or Thursday check run. We are willing and able to handle those situations that require a check issue immediately, same day, with the proper authorization and funding.

(2) Rolling a participant's account balance to another trustee at termination can be done either by check or by ACH. Our experience with this type of transaction is that 100% of the proceeds are liquidated at the point of purchase. If multiple contracts are purchased simultaneously the carrier will expect a single wire.

B. Provide trust statements

- (1) When are trust statements provided to the State?
- (2) What information is included in the trust statements?





(3) How are trust statements reconciled to the recordkeeping system?

**Contractor Response to Task V-B:**

(1) Fully audited monthly reports are available within five to seven business days after month-end. Preliminary reports are available online the first business day following month-end.

(2) Report Type: Computations of Net Asset Value

Brief Description: This report is the final calculation of the working trial balance for the specified accounting period, and shows the computation of the total net asset value of the fund.

Report Type: Working Trial Balance

Brief Description: This report summarizes activity in the fund for the specified accounting period. The working trial balance, maintained on our interactive general ledger system, is a balance sheet for the fund, displaying asset, liability, and capital accounts (i.e., cost, cash, receivables, payables, expenses, income, and contributions).

Report Type: Account Position Appraisal

Brief Description: The purpose of this report is to reflect an appraisal of all securities held in a single portfolio by a specific investment manager. It categorizes holdings by major and minor industry sectors within three asset classes (i.e., cash equivalents, equities, and fixed income).

Report Type: Cash Transaction Reports

Brief Description: This report shows a schedule of receipts and disbursements for the month, on a day-to-day basis. Transactions are categorized by type (e.g., purchases, sales, dividends received, interest received, etc.). An ending cash balance is shown for each day of the month. Activity is summarized by category on the final page of the report.

Report Type: Base Equivalent Cash Statement

Brief Description: This report reflects the local activity from the Cash Transaction Statement which has been converted into the base currency of the customer for a specific period. The local currency being converted is indicated in the top left hand corner of each report.

Report Type: Portfolio Purchase Report

Brief Description: This report shows all securities bought, canceled and adjusted during the month and is divided into three distinct investment classifications: fixed income, common and preferred, and short-term investments.

Report Type: Portfolio Sales Report

Brief Description: This report is similar to the Purchases Report with the exception that it reflects taxes (SEC), interest sold, and proceeds.

Report Type: Foreign Exchange Activity Report

Brief Description: This report reflects contracts to purchase or sell one currency for another currency.

Report Type: Summary Realized Gain / Loss Report

Brief Description: This report shows the proceeds, average cost, and average gain/loss realized on the sale of a given security during the accounting period.

Report Type: Open Trades Report

Brief Description: This report reflects securities traded but not yet settled. Each month, these securities, for accounting purposes, are carried as payables and/or receivables. Open transactions are categorized as purchases, sales, principal pay-ups, principal paydowns, or corporate actions.

Report Type: Receivables Reports

Brief Description: Comprised of Dividend, Interest and Tax Reclaim, this report shows the local and base receivables and the unrealized, by currency, gain/loss.

Report Type: Plan Accounting

Brief Description: Separate accounting for multiple plans within one trust.



(3) The plan administrators within CitiStreet will perform a reconciliation of the plan balance on a daily basis. Several reports are run at the close of each business day (after all activity has been processed) to summarize plan activity and ending balances. The totals are then reconciled to the ending balances in the Trust, and any differences resolved immediately.

State Street's trust accounting system is separate from, but integrated with, the participant recordkeeping system. Using the information provided by State Street, CitiStreet's reconciliation specialists also prepare a monthly trust-to-records reconciliation. This is a reconciliation of participant and trustee activity, including the holding account. The reconciliation includes beginning balances, transaction detail, earnings, prior period adjustments, and ending balances.

**C. Reconcile plan activities between trust system and recordkeeping system**

- (1) Describe the custodian/trustee services you propose. Does your organization have a single custody/trust relationship? If so, what is the name of your trust company and the total number of years that they have been in operation? What are the total public defined contribution assets currently under the custodian?
- (2) Describe any restrictions by investment type that pertain to your custodial services.
- (3) Describe how you trustee outside investment funds.
- (4) Describe your electronic link with the investment managers for updating participants' accounts on the recordkeeping system. Explain your daily updating process.
- (5) Describe your reconciliation process to ensure participant accounts and total custodial assets are in proof.

**Contractor Response to Task V-C:**

CitiStreet is not a custodian/trustee. The proposed service model is that Custody Services would be provided by one of CitiStreet's affiliates, State Street Bank and Trust Company. As State Street serves as the Custodian for the majority of our clients, the interface between State Street and CitiStreet is seamless and convenient for our clients.

It should be noted that to the extent that custody services are provided through State Street Bank and Trust Company, the plan sponsor would enter directly into a Custodian Agreement with State Street Bank and Trust Company that identifies the custodial services to be provided.

As master trustee or master custodian, State Street provides safekeeping of assets, trade settlement, portfolio accounting, daily processing, monthly or daily valuation and reporting, income collection, corporate action notification, tax reclaims, cash management and the preparation of reports to meet U.S. Department of Labor and other government agency reporting requirements. Month end accounting reports are delivered by the 5<sup>th</sup> business day of the next month (unaudited reports are available via on-line on the 1<sup>st</sup> business day). In addition, we also offer 24-hour global securities lending, performance analytics, and on-line data retrieval.

State Street has direct links with CitiStreet. We receive detailed participant activity and process these in a straight through fashion to our Global Horizon<sup>®</sup> system. Upon completion of our daily processes, we return NAV information to CitiStreet for processing in their system.

Named custodian of the first U.S. mutual fund in 1924, State Street was one of the first companies to develop specialized accounting, custody, pricing and information services for investment portfolios.

(2) Our custodial capabilities are extensive. We have never implemented nor do we foresee any restrictions by investment type that would affect a plan of this variety.

(3) State Street will set up each commingled fund, mutual fund or other such investment as a separate asset. These assets can be held in separate portfolios or composited based on customer specifications.



The shares for these assets are reconciled daily to the fund house in order to ensure we are valuing the correct share positions each day.

(4) Our interface system capabilities are flexible and provide access to other investment institutions without a problem. We have not had any problems with any investment management system.

Our system automatically gathers all participant requests from the voice response system, participant service workstation, and the Internet and prepares them for processing by the recordkeeping system. Transactions are typically captured electronically (as opposed to paper forms) and processed using market values that are calculated based on a 4:00 p.m. Eastern Standard Time market close. Transactions received after 3:59:59 p.m. are processed based upon the market values established at the end of the next business day.

Generally, the investment managers provide the trustee/custodian with net asset values by 5:30 p.m. Eastern Time every day. This information is fed in the pricing system to calculate fund prices for that day. These are reviewed and verified by the trustee/custodian before being transmitted to the recordkeeping system for processing that day's requests. We have established electronic interfaces with many investment managers selected by our clients. Our system processes all activity overnight and updates participant balances for voice response, Internet and customer service requests the following day.

Before the next day, all net financial activity as calculated by the recordkeeping system and electronically transmitted to the trustee/custodian in time for trade settlement instructions to be forwarded to the investment managers. Participant requests for distributions, withdrawals are processed on the day received and checks and confirmations are mailed directly to the participant within two days of receipt of request. Confirmations are sent on all transactions.

(5) The plan administrators within CitiStreet will perform a reconciliation of the plan balance on a daily basis. Several reports are run at the close of each business day (after all activity has been processed) to summarize plan activity and ending balances. The totals are then reconciled to the ending balances in the Trust, and any differences resolved immediately.

State Street's trust accounting system is separate from, but integrated with, the participant recordkeeping system. Using the information provided by State Street, CitiStreet's reconciliation specialists also prepare a monthly trust-to-records reconciliation. This is a reconciliation of participant and trustee activity, including the holding account. The reconciliation includes beginning balances, transaction detail, earnings, prior period adjustments, and ending balances.

#### VI. Customer service

- A. Maintain an adequate number of staff to provide the required information and services directly to State employees. Must be able to answer by phone or writing all participant questions about the Plans' features and options.

#### Contractor Response to Task VI-A:

We currently have a team of 25 representatives that are trained on the State of Michigan 401k and 457 plans. Approximately 15 of those representatives service Michigan in a primary capacity with the remaining team of 10 agents handling calls for Michigan in an overflow capacity. This primary and secondary team approach ensures that we are able to meet our service and quality targets. Another key attribute of our service strategy includes having the primary team of agents in one location and the secondary team in an alternate contact center site which ensures robust continuity of business and disaster recovery planning.

As we look to continue our strong partnership with the State of Michigan we are currently in the process of evaluating the creation of a new CitiStreet Contact Center in the Detroit area to service our national clients as well as the majority of the State of Michigan participants. We have met with the Executive director of the Michigan Economic Development Corporation to begin discussions and made contact with a Detroit based organization Focus: Hope to explore locations, training and recruiting opportunities. Our thinking is to explore a \$3MM investment and an initial hiring of up to 55 positions. CitiStreet has extensive knowledge and expertise in the deployment of new contact centers.



We have created robust contact center solutions at client sites and other CitiStreet owned locations throughout the country using our technology, processes, and expertise along with the hiring of local talent to staff each location. Collectively our contact center SVP, VP of Technology and VP of Service have over 35 years of experience in new contact center setup. We look forward to further exploring this Michigan contact center solution in partnership with the State of Michigan Department of Management and Budget.

- B. Voice Response System (VRS) – A user-friendly automated system will be established with a toll-free access number with a customized menu of items available by touch-tone phone, with information updated daily. This will also include easy access to speak to a representative and a TDD line. For each Plan, the voice response system shall include:
1. Up front news alerts.
  2. Total account balance with a breakdown by investment options valued at the prior day's closing values
  3. Unit values or share prices at the prior day's closing values
  4. Current deferral election and ability to change deferrals daily
  5. Asset allocation for current deferrals and ability to change daily
  6. Asset allocation for current balances and ability to change daily
  7. Transfer between investment options daily
  8. Forms and documents mailed to address of record
  9. Information about hardship withdrawals
  10. Loan amount available and initiate plan loans other than real estate loans. Provide current interest rate on loans.
  11. Change PIN number
  12. Request Self-Directed Brokerage Account information and speak with a Brokerage Representative
  13. Easy access to Customer Service Representative or Advisor Service Representative
  14. Switch easily between Plans
- (a) Provide a phone number and instructions on how to access a demonstration of your automated VRS capabilities for the participant.
  - (b) Describe any additional services available through your automated voice response system that is not stated above.
  - (c) How quickly is the VRS updated after transactions are performed?
  - (d) How does your VRS capture and retain information regarding the confirmation of a transaction request? In the situation whereby a participant calls the VRS but does not properly complete the transaction, describe how do you retain a record that a call was placed but the transaction was not properly executed.
  - (e) With regard to deferral changes, describe how you provide an automated feed back to the State to update their payroll records and contribution changes, which are based upon dollar amounts or percentage of pay.
  - (f) Describe how data is secured within the system (i.e., PIN, audit trail, confirmations).
  - (g) Describe the security through which a participant passes to use your voice response system (e.g., recorded lines, personal identification numbers, and confirmation notices).
  - (h) Describe any security breaches that resulted in improper access to one or more participant's accounts within the last three years.

**Contractor Response to Task VI-B:**

(a) Provided below is access information to our demonstration VRS:

Toll-free Phone number: 877-404-6739

Social Security Number: 888-88-8027

Password: 1234

Please note that the upfront request to drop to a representative by pressing 0 at anytime is not available in the demonstration VRS.

(b) The State of Michigan VRS also allows for the processing of inservice withdrawals. In addition to VRS capabilities CitiStreet has worked with clients to create benefits phone menus in the network to allow participants to opt to various benefits providers even if we don't administer all benefits. We would be excited to discuss these additional capabilities with the Department of Management and Budget.

(c) Transactions that are requested immediately show as pending until 4pm at which point our system processes all activity overnight and updates participant balances for voice response, Internet and customer service requests the following day.

One (real-time replicated) Oracle database feeds our three participant servicing applications (interactive Voice Response System, Participant Service Workstation, and Internet). We've integrated these servicing applications to ensure that no matter which servicing option participants use, they get consistent and accurate information. For example: if a transaction is entered in the interactive Voice Response System, it is reflected immediately on the Participant Service Workstation and Internet application.

Our system processes all activity overnight and updates participant balances for voice response, Internet and customer service requests the following day.

(d) We retain records of all transactions that are processed through the voice response system, the Internet and through a Participant Service Representative. A confirmation number is generated for all transactions. Using the confirmation number, CitiStreet can retrieve the actual transaction completed by the participant. The confirmation number is maintained as a permanent record in the participant history and activity file. If a participant cancels a transaction after processing this is also tracked.

We do not keep a record of transactions which are not completed. In this instance the participant would not receive confirmation during the call that the transaction was completed. Therefore, they would be aware there the transaction had not taken place. They could elect to speak to a representative in the local office or call center for assistance.

(e) Participants can contact CitiStreet and establish their contribution rate and investment elections over the interactive voice response system, by speaking to a Participant Service Representative or through the Internet.

Frequency and timing of contribution data, sent as often as weekly, generally coincide with your payroll frequency.

(f) CitiStreet requires a Social Security Number (SSN) or employee identification number and Personal Identification Number (PIN) to access accounts and perform transactions via the Internet, Participant Service Representative or voice response system. Failed account access, determined by ineligible PIN and SSN combination, will generate a PIN reminder (in a sealed self-mailer) to the address of record. CitiStreet has the ability to work with the sponsor to support all desired methods of encryption and authentication. We have full capabilities in place to support the unique requirements of each of our clients.

Personal identification numbers (PINs) are assigned through the system using complex algorithm programming. Participants can change their PIN at any time through the interactive voice response system, Participant Service Representative or Internet, however the original PIN must first be entered to gain access to this function. The PIN is held in encrypted format in a centralized IBM DB2 authentication database (which is real-time replicated across two different physical sites).



All transactions initiated through the voice response system, participant service representative or Internet receive written confirmation. An audit trail is created by issuance of a transaction confirmation number provided to the caller for all changes completed through voice response system. Using the confirmation number, CitiStreet can retrieve the actual transaction completed by the participant. The confirmation number is maintained as a permanent record in the participant history and activity file.

(g) CitiStreet requires a User ID and Personal Identification Number (PIN) to access accounts and perform transactions via the Internet, Participant Service Representative or IVR. Once authenticated in the IVR, participants account information will pre-populate on the representatives workstation. The PSR will not see nor ask for a PIN. All PSR calls are recorded and archived on site for a minimum of seven years. Failed account access, determined by ineligible PIN and User ID combination, will generate a PIN reminder (in a sealed self-mailer) to the address of record. CitiStreet has the ability to work with the sponsor to support all desired methods of encryption and authentication. We have full capabilities in place to support the unique requirements of each of our clients.

Personal identification numbers (PINs) are assigned through the system using complex algorithm programming. Participants can change their PIN at any time through the interactive voice response system, Participant Service Representative or Internet, however the original PIN must first be entered to gain access to this function. The PIN is held in encrypted format in a centralized IBM DB2 authentication database (which is real-time replicated across two different physical sites).

CitiStreet has a Chief Information Security Officer, who reports to the Corporate Chief Information Officer, along with Information Security Officers within each division. There is an information management policies, standards and procedures document, which we update regularly. In addition to the yearly SAS 70 audit, CitiStreet has internal audits performed at the request of the Audit Subcommittee of the Board. We also conduct ongoing, informal reviews within our IT group to ensure compliance.

CitiStreet currently has an extensive technology infrastructure in place for security and intends to constantly re-evaluate and improve this key discipline. Some key components include:

- CISCO PIX firewalls in front of and behind our internet subnet
- Intrusion detection infrastructure monitoring all of our network segments
- 'Hardening' of all servers
- Constant monitoring of security advisories
- Constant monitoring of security patches relating to operating systems, web servers and database software

(h) We have had no security breaches that resulted in improper access to one or more participant's accounts within the last three years.

C. Customer Service Representatives – Trained representatives will be available from 8:00 am to 8:00 pm Eastern Standard Time each business day and will be prepared to address the following issues:

1. Handle all requests that also could be done by the Voice Response Unit or the web site.
2. Review and explain investment alternatives and past investment returns.
3. Explain all Plan provisions. Understand what federal law allows compared to actual Plan provisions.
4. Understand general concepts of deferred compensation plans and investments.
5. Provide multi-lingual representatives when needed.
6. Respond to participants' questions and complaints. Any complaints not resolved within thirty working days will be brought to the attention of the State.
7. Enroll new participants.
8. Provide assistance to participants during an Internet session.
9. Monitor and record all participants calls with a customer service representative.

(a) At what point in the call can a participant elect to move from the VRS to a customer service representative (CSR)?

(b) Please confirm that you will have dedicated CSRs allocated to the State to assist Plan participants. How many CSRs will be dedicated?





- (c) How do employees enroll in the Plans through the customer service center?
- (d) Following a CSR-assisted transaction, how quickly will a written confirmation be mailed to the participant's home address? Can participants request confirmation statements be e-mailed to them?
- (e) Describe the PIN management process including timing of assigning a new PIN at the initial conversion and upon new plan enrollment.
- (f) Describe your procedure for providing a PIN for participants who lost or misplaced their PIN.
- (g) Are there any transactions that cannot be processed through the VRS or customer service center (i.e., address change, distributions, beneficiary change, etc.)?

#### Contractor Response to Task VI-C:

(1-8) CitiStreet understands and agrees to these requirements.

9(a) If a participant has difficulties while in the voice response system then they could press '0' and be transferred to a participant service representative who would be able to assist the participant.

(b) We currently have a team of 25 representatives that are trained on the State of Michigan 401k and 457 plans. Approximately 15 of those representatives service Michigan in a primary capacity with the remaining team of 10 agents handling calls for Michigan in an overflow capacity. This primary and secondary team approach ensures that we are able to meet our service and quality targets. Another key attribute of our service strategy includes having the primary team of agents in one location and the secondary team in an alternate contact center site which ensures robust continuity of business and disaster recovery planning.

As we look to continue our strong partnership with the State of Michigan we are currently in the process of evaluating the creation of a new CitiStreet Contact Center in the Detroit area to service our national clients as well as the majority of the State of Michigan participants. We have met with the Executive director of the Michigan Economic Development Corporation to begin discussions and made contact with a Detroit based organization Focus: Hope to explore locations, training and recruiting opportunities. Our thinking is to explore a \$3MM investment and an initial hiring of up to 55 positions. CitiStreet has extensive knowledge and expertise in the deployment of new contact centers. We have created robust contact center solutions at client sites and other CitiStreet owned locations throughout the country using our technology, processes, and expertise along with the hiring of local talent to staff each location. Collectively our contact center SVP, VP of Technology and VP of Service have over 35 years of experience in new contact center setup. We look forward to further exploring this Michigan contact center solution in partnership with the State of Michigan Department of Management and Budget.

(c) We send a Personal Identification Number (PIN) to each eligible participant. Upon receipt of the PIN, the participant can contact CitiStreet and establish their contribution rate and investment elections over the interactive voice response system, by speaking to a Participant Service Representative or through the Internet. Contribution percentage elections and allocation changes are accepted and posted daily to the system. They are transmitted to the State to be effective with the next available payroll.

(d) Confirmations are mailed within 2 days after the transaction occurred. CitiStreet can send an e-mail notification to the participant. The e-mail contains a link to with their confirmation statement.

(e) Personal identification numbers (PINs) are assigned through the system using complex algorithm programming. Participants can change their PIN at any time through the interactive voice response system, Participant Service Representative or Internet, however the original PIN must first be entered to gain access to this function. The PIN is held in encrypted format in a centralized IBM DB2 authentication database (which is real-time replicated across two different physical sites).

CitiStreet now allows a user to reset their pin number online (if it has been disabled by 3 unsuccessful attempts) by answering a series of challenge questions and verifying a piece of personal information on the system such as Date of Birth.



(f) Failed account access, determined by ineligible PIN and User ID combination, will generate a PIN reminder (in a sealed self-mailer) to the address of record. CitiStreet has the ability to work with the sponsor to support all desired methods of encryption and authentication. We have full capabilities in place to support the unique requirements of each of our clients.

CitiStreet now allows a user to reset their pin number online (if it has been disabled by three (3) unsuccessful attempts) by answering a series of challenge questions and verifying a piece of personal information on the system such as Date of Birth.

(g) CSRs have functionality to process all transactions allowed within a plan.

- D. Interactive Web Site –The TPA must make the web site available 24 hours a day, with minimal down time for routine maintenance. The TPA must be proactive in updating and maintaining the website with regulatory or plan administrative changes. The site must allow customization to fit the unique Plan structure and options of the State. The site must be user friendly, accessible with an account number and password. Generic website information will be accessible without an account number or password. The site will update information daily and will include, at a minimum, the following information:
1. Current total account balance with a breakdown by investment options and by money source (dollar and percent), and vested balances
  2. Enrollment for new participants
  3. Option for automatic rebalancing
  4. Current investment fund unit values or share prices and cumulative performance up to ten years
  5. Current investment fund summary information and access to prospectus
  6. Fee structure for all services
  7. Current deferral election and ability to change daily
  8. Asset allocation for current deferrals and ability to change daily
  9. Asset allocation for current balances and ability to change daily
  10. Transfer between investment options daily
  11. Forms, documents, publications (including newsletters) in printable format
  12. Amount available, information about and application for hardship (unforeseeable emergency) withdrawals
  13. Loan amount available, model loans and initiate plan loans other than real estate loans. Status of current loans
  14. Detailed transaction history and pending transactions
  15. Change account login and PIN numbers
  16. Request Self-Directed Brokerage Account information and transfer to Brokerage Account online
  17. Transfer to Advisor Service Online
  18. Switch easily between Plans
  19. Plan information including summaries and the plan documents
  20. Calculators including projected balances, payout calculations
  21. Customized, Interactive retirement planning tools
  22. Educational information about investments, retirement planning
  23. Request certain distributions
  24. Employment, address and beneficiary information
  25. Generate statements and choice of paper or electronic statements
  26. Ability to target messages to a specific subset of participants
  27. Up-front news alerts
  28. Glossary of Terms
  29. TPA contact information
  30. Immediate transaction confirmation





- (1) Provide an Internet address and instructions on how to access a demonstration of your Internet capabilities for both the participant and plan sponsor.
- (2) Describe how your website has the capability to allow employees to take a tutorial of the online features and services. Provide the demonstration.
- (3) Describe the communication materials or tools you offer the Plan participants via the Internet.
- (4) Describe your automated enrollment process through the Internet.
- (5) Describe how your VRS, Customer Service Center, and Internet prohibit a participant from enrolling in the Plan if they do not select an investment option for their pre-tax contributions.
- (6) Describe any transactions that cannot be completed via your Internet site.
- (7) Describe how your Internet site has the ability to download participant account information for use with other software programs (i.e. Microsoft Money, Quicken, etc.).
- (8) Describe how you ensure that the plan website, administrative forms, and plan information are kept up-to-date.
- (9) Describe the security through which a participant passes to use your Internet system. What firewalls do you have in place for your Internet services?
- (10) Describe your security measures to ensure safety of participant accounts from both internal and external fraud.
- (11) Describe improvements or enhancements to your Internet capabilities that are anticipated to occur in the next two to three years?

**Contractor Response to Task VI-D:****(1) Participant internet site address**

URL: <https://stateofmi.csplans.com>

SSN: 000-99-0026 (401(k) account)

SSN: 000-99-0028 (457 account)

PIN: 1234 (for both)

**SponsorConnect:**

The ID and password will expire after March 30th for security purposes. Please call Randy Taylor at 703-251-4655 to obtain a new logon ID and password if needed.

Provided below is the access information to our plan sponsor demonstration site:

URL: <http://www.citistreetonline.com/>

ID: sponsordemo543

Password: apr302007

(2) Currently, CitiStreet provides an interactive video tutorial on web usage that is customized for the Michigan Plan. Participants or potential participants may view this feature pre log in. A copy in CD ROM format has been provided within the enclosures.

(3) Based on extensive client surveying, sponsor forums and analysis of the state of the industry, we are completing by mid year a redesign and upgrade to our current website. This new site would be implemented for Michigan.



CitiStreet's Internet access keeps the plan on technology's cutting edge. Participants get one-stop, online access to account, plan, and investment information. They can make transactions and check account balances – all at the click of a mouse. CitiStreet's site provides powerful, interactive learning. We offer numerous opportunities for participants to evaluate their participation through a wide range of interactive tools. The Internet application is designed to be available 24 hours a day, 7 days a week except during scheduled maintenance.

**Information Resources:** Through the site, participants can access extensive account, plan, and investment information. We provide near real-time account information including:

- Total balance by plan, as well as balances by individual fund and source
- Existing investment fund allocations
- Contribution rates
- Future contribution investment elections
- Withdrawal amounts available, broken down by types (such as after-tax and hardship withdrawals)
- View account transaction history
- View outstanding loan balance information (if loans are allowed and loan payments are made via payrolls)

Participants can also view each plan's provisions, including:

- Eligibility
- Contribution limits
- Withdrawal guidelines

We also provide detailed information on each plan's investment options, such as:

- Objective and strategy detail for each individual fund
- Investment performance
- Top holdings, sector weightings, and industry segmentation
- An extensive investment glossary

**Account Transactions and Form Requests:** CitiStreet's Internet site offers transaction capabilities and form requests similar to those available through our automated voice response system. Participants can:

- Enroll in the plan – on-line
- Transfer and reallocate existing balances between funds
- Change future investment election percentages
- Change contribution deferral percentages
- Loan issuance (if loans are allowed)
- PIN change transaction
- Request forms needed for certain types of transactions

**Educational Tools:**

The Internet lets plan sponsors deliver education when participants want it. And, because participants are actually looking at their own account information on-screen, they benefit that much more from the educational experience. We take full advantage of this visual medium, incorporating a range of useful education modules into our site. Specifically, participants can complete a facilitated retirement planning tour. Or, they can review specific topics of interest such as the time-value of money, goal setting, the effects of inflation, and asset allocation.

There are interactive exercises throughout the site to facilitate the learning process, featuring calculators that are available throughout the site and can stand alone to teach different investment and financial planning concepts or that can be used together – building upon one another – to demonstrate the basics of creating a sound retirement plan. The user can select calculators that are appropriate for the area within the site that they are in – there is a calculator icon with a description of the calculator at appropriate points in the site – or they can click on the calculator section and pick whatever calculator they want to use.

**Online Financial Resource Center**

The Participant's Financial Resource Center provides a gateway to expansive education on a variety of retirement and personal financial planning topics that spans multiple media. Here is a breakdown of what you can find in each section:

- **Retirement** - This section covers all aspects of planning for retirement including how to invest for retirement. Some sample topics include *Starting Early: The Power of Saving Over Time* and *The Magic of Compounding*.
- **Investing** - This section covers basic and advanced concepts of investing. Some sample topics include *Keep it in balance with Diversification* and *Understanding Risk*.
- **Personal Finance** - This section addresses financial topics that are outside of retirement planning and investing, such as mortgages, paying for college, paying taxes and much more. Some sample topics include *Adjustable versus Fixed-Rate Mortgage* and *Tips for Paying Off College Debt*.
- **Solutions Online** – This section provides the past and present editions of our quarterly *Solutions* Newsletter.

**Tools** - This section provides a variety of useful planning tools including calculators and past transcripts of interactive chat sessions. The calculators are integrated with the participant's account data to create a much more powerful learning experience that results in a personal retirement plan.

CitiStreet's DC plan participant Web site has been awarded the DALBAR Seal of Excellence. The Seal is awarded to outstanding Web sites that effectively and efficiently meet the needs of plan participants. Before awarding the seals, DALBAR conducts a series of tests on web sites' features, usability, support, currency and consistency to establish that it meets the principal objectives of its audience.

DALBAR said the results of these tests indicate that the CitiStreet DC plan participant Web site successfully meets the requirements of plan participants and is outstanding in that it:

- Offers the functionality and content that is comprehensive and intuitively placed on the website.
- Provides Online Statement feature that allows participants to customize the look for their statement, as well as the content that is included.
- Provides an excellent account monitoring capabilities.

(4) Once we receive information on the newly hired person through payroll, we assign and send a PIN notification letter as well as mail an enrollment kit with instructions on how to join the plan. Once a participant has a pin, they can logon to the secure internet and process their enrollment selection. A confirmation letter will be sent confirming their enrollment in the plan. We can also send a reminder letter to the participant to let them know they need to take action.

(5) During the initial contact either via the Internet, VRS, or Participant Services Representatives, an employee is required to elect both a deferral percent and an investment election. The transaction will not be confirmed unless both elections are updated.

(6) Address change forms can be requested via our voice response system, Internet, or by speaking with a participant service representative.

Other transactions that would require participant service representative assistance include (but is not limited to):

- Some Self-Managed Brokerage Account Transactions (if applicable)
- Distribution requests if CitiStreet does not have termination data

(7) You can now download your retirement plan account information to either of two popular personal financial management software packages — Quicken® or Microsoft Money®. At your command, an automated link feeds current, accurate data — including balances and transactions — to the computer application you're using. With this timesaving capability, you can plan and make decisions viewing all your investment information at once.

(8) This is the responsibility of your dedicated plan administrative team. This is a function that is standard and includes assistance from communication and local staff.



(9) CitiStreet requires a User ID and Personal Identification Number (PIN) to access accounts and perform transactions via the Internet, Participant Service Representative or IVR. Failed account access, determined by ineligible PIN and User ID combination, will generate a PIN reminder (in a sealed self-mailer) to the address of record. CitiStreet has the ability to work with the sponsor to support all desired methods of encryption and authentication. We have full capabilities in place to support the unique requirements of each of our clients.

Personal identification numbers (PINs) are assigned through the system using complex algorithm programming. Participants can change their PIN at any time through the interactive voice response system, Participant Service Representative or Internet, however the original PIN must first be entered to gain access to this function. The PIN is held in encrypted format in a centralized IBM DB2 authentication database (which is real-time replicated across two different physical sites).

CitiStreet has a Chief Information Security Officer, who reports to the Corporate Chief Information Officer, along with Information Security Officers within each division. There is an information management policies, standards and procedures document, which we update regularly. In addition to the yearly SAS 70 audit, CitiStreet has internal audits performed at the request of the Audit Subcommittee of the Board. We also conduct ongoing, informal reviews within our IT group to ensure compliance.

CitiStreet currently has an extensive technology infrastructure in place for security and intends to constantly re-evaluate and improve this key discipline. Some key components include:

- CISCO PIX firewalls in front of and behind our internet subnet
- Intrusion detection infrastructure monitoring all of our network segments
- 'Hardening' of all servers
- Constant monitoring of security advisories
- Constant monitoring of security patches relating to operating systems, web servers and database software

(10) CitiStreet requires a Social Security Number (SSN) and Personal Identification Number (PIN) to access accounts and perform transactions via the Internet, Participant Service Representative or voice response system. Failed account access, determined by ineligible PIN and SSN combination, will generate a PIN reminder (in a sealed self-mailer) to the address of record. CitiStreet has the ability to work with the sponsor to support all desired methods of encryption and authentication. We have full capabilities in place to support the unique requirements of each of our clients.

Personal identification numbers (PINs) are assigned through the system using complex algorithm programming. Participants can change their PIN at any time through the interactive voice response system, Participant Service Representative or Internet, however the original PIN must first be entered to gain access to this function. The PIN is held in encrypted format in a centralized IBM DB2 authentication database (which is real-time replicated across two different physical sites).

All transactions initiated through the Voice Response System, Participant Service Representative or Internet receive written confirmation. An audit trail is created by issuance of a transaction confirmation number provided to the caller for all changes completed through voice response system. Using the confirmation number, CitiStreet can retrieve the actual transaction completed by the participant. The confirmation number is maintained as a permanent record in the participant history and activity file.

CitiStreet takes the security of information--our customers' and their participants'--very seriously. We take great steps to protect personal participant information and sponsor data, and we believe that every employee is responsible for information security. To help accomplish this objective, CitiStreet continues to monitor and implement safeguards through a comprehensive information security (IS) policy in addition to our restricted and confidential data policy.

CitiStreet has IS policies and standards covering all aspects of our business and technology worldwide, and we work closely with our parent companies, vendors and customers to ensure compliance with these policies and standards. These safeguards include:



- Dedicated IS organization at all business locations, including corporate and regional IS compliance officers
- Employee information is accessed only when required for conducting business for that plan, and is handled with utmost care and security
- CitiStreet promotes IS awareness among its management team and employees through mandatory annual training for all employees and new hires, with supplemental training as needed
- CitiStreet's infrastructure and systems, applications and access, firewalls, relationships with vendors and systems releases are all subject to strict controls and procedures

As a testament to our industry-leading policies, CitiStreet was selected to deliver an information security presentation at the ISCEBS symposium. CitiStreet's Patricia Long and Karen Bruner Upright delivered the workshop presentation, "Information Security: Protecting a Firm's Most Valuable Assets" to help attendees learn what information security is and what can be done to protect members' or participants' information physically and electronically.

(11) CitiStreet continuously enhances the functionality of the participant web site with three scheduled releases each year. We take pride in maintaining industry-leading functionality while keeping the site uncluttered and intuitive for the user. We continuously research and assess prospective enhancements through competitive analysis, benchmarking reviews, and most importantly, ideas presented by our clients.

Major enhancements in our new site will include significant navigational improvements to the site, next generation online calculators and planning tools, and enhanced investment research / information capabilities.

#### E. Confirmation of Transactions

Participants using the VRS, customer service representatives or the web site shall receive a confirmation number followed by a written confirmation which shall be mailed directly to the address on file for the participant within five (5) business days. For participants who are making a change to their contributions that will result in the elimination or reduction of the amount of employer matching contributions that they are receiving, they shall be informed by the customer service representative of this detrimental effect, and also receive this information in a written confirmation. Participants may choose to receive confirmations in written form or by e-mail notification.

#### Contractor Response to Task VI-E:

All transactions initiated through the voice response system, Participant Services Representative and/or Internet receive written confirmation. An audit trail is created by issuance of a transaction confirmation number provided to the caller for all changes completed through any of our servicing applications. Using the confirmation number, CitiStreet can retrieve the actual transaction completed by the participant. The confirmation number is maintained as a permanent record in the participant history and activity file. In addition to the confirmation number, confirmation statements are mailed within two business days for any transaction performed through the voice response system, Participant Services Representative, or Internet application.

CitiStreet can send an e-mail notification to the participant. The e-mail contains a link to with their confirmation statement.

CitiStreet has the capability to add additional messaging to both the Participant work station and confirmation statements which will inform Defined Contribution employees of the resulting loss of match if the deferral percent is less than 3%. Currently CitiStreet runs a monthly report to identify employees who will reach the pre tax contribution maximum prior to year end which would result in missed employer match. Notifications are sent and employees are advised to contact CitiStreet to adjust their contribution rate accordingly.

#### F. Error Correction

Provide resolution of errors and omissions during enrollment and ongoing plan administration. An error committed by the TPA through the VRS, Representative, web site or in regular processing shall be corrected and processed as of the effective date of the original transaction. Written confirmation of the correction shall be mailed to the address on file for the participant within 10 business days after the correction of the error.

**Contractor Response to Task VI-F:**

Confirmed. Incorrectly processed transactions will always be corrected, regardless of how much time has passed since the original transaction processing date. CitiStreet's recordkeeping system is a transaction based activity history system, maintaining a complete activity history on-line, including historical prices. Corrections are performed on the recordkeeping system using as-of or backdated transactions for processing adjustments, reflecting the original trade-date's price. Once posted, the earnings are automatically calculated by the system.

**G. Trade Settlement**

The TPA shall be responsible for all settlements among the investment providers due to changes in participant directed investments.

**Contractor Response to Task VI-G:**

Confirmed. Our System automatically gathers all participant requests from the voice response system, participant service workstation, and the Internet and prepares them for processing by the recordkeeping system. Transactions are typically captured electronically (as opposed to paper forms) and processed using market values that are calculated based on a 4:00 p.m. Eastern Standard Time market close. Transactions received after 3:59:59 p.m. are processed based upon the market values established at the end of the next business day.

Generally, the investment managers provide the trustee/custodian with net asset values by 5:30 p.m. Eastern Time every day. This information is fed in the pricing system to calculate fund prices for that day. These are reviewed and verified by the trustee/custodian before being transmitted to the recordkeeping system for processing that day's requests. We have established electronic interfaces with many investment managers selected by our clients. Our system processes all activity overnight and updates participant balances for voice response, Internet and customer service requests the following day.

Before the next day, all net financial activity as calculated by the recordkeeping system and electronically transmitted to the trustee/custodian in time for trade settlement instructions to be forwarded to the investment managers. Participant requests for distributions, withdrawals are processed on the day received and checks and confirmations are mailed directly to the participant within two days of receipt of request. Confirmations are sent on all transactions.

**H. Automated Distribution of Plan Information**

The TPA shall mail enrollment materials to all new employees within two (2) business days of receipt of hire information. The TPA shall mail distribution information to all terminated participants within two business days of receipt of termination information.

**Contractor Response to Task VI-H:**

Once the participant is eligible for the plan, CitiStreet mails a personal identification number (PIN) and enrollment kit to the participant (the SPD can also be sent). Upon receipt of the PIN, the participant can contact CitiStreet and establish their contribution rate and investment elections over the Interactive Voice Response (IVR) System, Internet or with a Participant Service Representative.

Termination/retirement distribution(s) are usually facilitated by mailing a comprehensive information package to the participant's address of record that will explain the full range of options available to the individual in "terminated" status. The package includes any necessary election forms for return to CitiStreet. Participants can execute final distribution transactions through a Participant Services Representative, Internet or through the interactive voice response system (unless the plan sponsor has opted to require a manual distribution form).

**I. Respond to Participant Questions and Complaints**

Response shall be made in a timely manner. Any complaints not resolved within 30 working days will be brought to the attention of the State.



**Contractor Response to Task VI-I:**

CitiStreet has a detailed case management system in place. In the event that a Participant Service Representative cannot provide or assist a participant with a particular issue or question, CitiStreet maintains an online case management, or "research" function to provide our representatives, and our plan administration area(s) with an efficient means of two-way communication. This online case management tool allows a Participant Service Representative to submit any unique and/or complex issue(s) to the appropriate plan administration unit for additional research and ultimately - resolution. Once received by the plan administration unit, the issue is fully researched and responded to - providing direction, information, and/or other action steps for the Participant Service Representative in an effort to assist in resolving the issue to the participant's satisfaction.

Our goal is to resolve every issue using the resources of the Participant Service Center and the State's Service Team without having to involve the State benefits staff. Issues that may require State benefit staff involvement include: issues involving history from the prior recordkeeper, inconsistencies in demographic information such as date of hire/date of termination, and participant appeals.

Beyond advanced reporting and real-time response to participant issues, it is CitiStreet's goal to have first-call resolution. This is made possible by assuring clean data, automated tools and an emphasis on training. To the extent a participant problem can't be handled in the first call, a case is established in our system that will be resolved typically within 48 hours. To the extent a participant is dissatisfied with an aspect of our service, we have established a formal escalation procedure which is outlined below:

- Participant disputes are initially handled by our Participant Service Representatives
- If the problem is not resolved to the satisfaction of the participant, the situation is referred to a Supervisor.
- The Supervisor may refer a complex dispute to the Operations Manager and, if necessary, to the Client Director.
- Only after this process is exhausted would a specific case be discussed with the State for resolution.

If there is a complaint made by a participant about the service they received from a representative this would be immediately reported to the Participant Service Representative's manager. The call between the participant and manager would be retrieved and reviewed by the manager. If the call resulted in an error the manager would take the appropriate action to ensure that the error is thoroughly investigated and take the necessary steps to prevent it from happening again. The manager would contact the participant with a resolution. All calls would be reviewed and discussed with the Participant Service Representative.

**VII. Marketing**

- A. Annual Participant Satisfaction Survey – The TPA will contract with a third party from within the State of Michigan to conduct an annual participant survey that will measure knowledge, use and satisfaction with various products and services.

- (1) What corrective measures or action steps do you perform to address client and participants who are not satisfied with your service performance?
- (2) Would you agree to a financial penalty of \$50,000 if you do not meet the participant satisfaction goal mutually established with the State? Please describe.

**Contractor Response to Task VII-A:**

- (1) Participant satisfaction issues are discussed between CitiStreet and the State. Appropriate corrective actions are determined jointly and implemented by CitiStreet. The following years review places a high priority on the resolution of issues throughout the course of the year and corrections or enhancements are designed and tracked.
- (2) Yes. We have contracted with a local Michigan based company, EPIC MRA and have been pleased with the high satisfaction scores this firm has found (93%)



- B. Annual Marketing Plan – The TPA shall prepare an annual plan to promote the State’s priorities for each new year. The plan will be available no later than January 31<sup>st</sup> of each new year.

- (1) Based upon the information contained in this CONTRACT, provide a detailed communication/education business plan that is specifically customized to the State. Your communication business plan should address both the initial implementation/transition and ongoing communication, in all forms and locations, over time.

**Contractor Response to Task VII-B:**

CitiStreet will prepare an annual Communication and Education Plan that identifies activities and initiatives to support the State’s goals and objectives. The plan will be available no later than January 31st of each calendar year. Please refer to our proposed Communication Plan in **Appendix C**.

VIII. Communication Services – In consultation with the State:

- A. Brochures: Design and print a new employee packet (general enrollment and plan information) to be mailed to all new employees and a Payout Guide to be mailed to all terminated employees, both available in hard copy and on the web site, or can be ordered through the phone system. Other brochures as needed. Current brochures can be found on the website at <http://stateofmi.csplans.com>.

**Contractor Response to Task VIII-A:**

Currently CitiStreet is developing a modular New Employee Packet that can be customized for specific individuals or groups, based on needs. Packets will be redesigned with new look and feel to establish Plan identity and compliment other communications. New Employee Packet, along with all other brochures will be available for viewing or download on the Plan’s website and available for order through the automated phone system. In addition, CitiStreet Plan Consultants and State HR/Benefit Coordinators will be able to order customized Packets, as well as all other Plan communications, through an online ordering system.

CitiStreet also has the ability to customize an entire website for a particular group. These sites are independent from the CitiStreet transactional web site and can be updated real time. Recently a Key Stakeholders web site was developed for the State of Georgia to empower a small group of key employees with up to date information throughout the transition process. A sample of which in CD ROM format has been included within the **enclosures**.

- B. Design, print and mail post cards and other special mailings as needed to promote various aspects of or changes to the Plans, often targeted to a specific audience.

- (1) Briefly describe your background and experience in providing communication and education programs.
- (2) Provide samples of initial enrollment and on-going communication and education materials.
- (3) Describe the services you offer in the enrollment process. Please be sure to include such items as monitoring and tracking new hires. Describe how you will maintain and control the inventory of all related enrollment materials that are to be included in the enrollment kits.
- (4) Describe the communication and education process that you provide for retired employees with balances held in the Plans.
- (5) How do you provide information to participants regarding options on distributions? Describe any services or programs you provide for participants leaving the Plans.
- (6) Provide copies of your participant correspondence such as transaction confirmation statements, disqualification of hardship/ unforeseeable emergency withdrawal requests, warning letters for potential loan defaults, etc.



**Contractor Response to Task VIII-B:**

(1) CitiStreet continually works with the State of Michigan to provide targeted communications to achieve specific client goals such as increasing participation. It is our experience that individuals tend to make financial decisions on their time as opposed to when we communicate. As such, we develop an ongoing, targeted campaign as opposed to a one-time communication tends to be a more effective approach to building participation. Our process to ensure delivery of targeted communications includes:

Development of an annual communication strategy that identifies targeted opportunities relative to deferrals, participation, asset allocation, and life-cycle, in addition to general plan communication and means for building investor education. This is presented to Michigan for review and approval prior to implementation. When considering target groups (e.g. non-participants), we also review and report on a demographic breakdown by age and income range, as well as location, to identify trends among employees.

Targeted communications include all or some of: postcards, statement inserts, targeted Web messaging, personal projection statements, targeted workshops, one-on-one paycheck analysis sessions, asset allocation worksheets.

All targeted campaigns are measured to determine results. These results are reported to the State of Michigan.

In 2006, the Government Communications & Education team completed targeted campaigns for 80% of our Client base.

The results of these campaigns were as follows:

- Campaigns to increase fund diversification resulted in the average number of funds per participant rising from 2 to 3
- Campaigns to increase participation rate increase enrollment ranged from 2% - 8%, with an average increase of participation of 6% .
- Campaigns to increase deferral rate - increase rates ranged from 8% - 12%, an average increase in deferral rate of 10%
- Campaigns designed to decrease rollovers ranged from a 15% - 27% reduction in asset withdrawals with an average of 25.3%

CitiStreet has been engaged in Targeted messaging campaigns with The State of Michigan over the last 5 years. These efforts have show significant increases in all measurable areas such as enrollments, diversification, participation in the Advisor service, and overall Plan recognition.

(2) Please refer to the enclosed sample initial enrollment and on-going communication and education materials.

(3) Upon eligibility, an individual will receive a confirmation notice along with a plan education kit and relevant fund information. Their Personal Identification Number (PIN) will be issued separately, but in coordination with the eligibility notice. For plans with enrollment challenges, reminder mailings, including personalized projection statements, are issued at key dates past eligibility (e.g. 3 months not enrolled).

The plan education kit content is designed to meet the needs of the audience and plan sponsor requirements. For example, some education kits look to build basic education around the importance of saving and what a retirement savings plan is, the benefits and features of the plan, fund options, and how to manage your account. Other education kits provide just a quick overview of the plan features and fund options. Writing level is determined by the needs of the audience – from basic language at a 3<sup>rd</sup> to 5<sup>th</sup> grade level to language for a highly educated audience. CitiStreet will work with the plan sponsor to determine the right approach, look, and content. We will then manage the development of the kit – either creating a fully custom approach or through our unique print-on-demand system which allows for customization in a just-in-time inventory environment. Timing ranges from as few as 8 weeks to as great as 6 months, depending upon the scope of the kit content and plan sponsor review process.



Currently CitiStreet engages in a 6 point Plan to communicate with new hires. These points include:

1. E-mail to new employee telling them to look for PIN & packet if they haven't received - approx. 4 weeks after hire date
2. Call to new employee - approx. 5 weeks after hire date
3. 45-day age-bracketed letter if no contributions have been made - approx. 45 days after hire date
4. E-mail covering seminar topics with link to calendar with dates and places where seminars will be held - approx. 7 weeks after hire date
5. 90- day letter if no contributions have been made - approx. 90 days after hire date
6. Send by U.S. Mail in hand-addressed envelope Free Money communications piece if no contributions have been made - 120 days after date of hire

The "High Touch" new hire plan outlined above has been in place since 1/1/2005. As a result, 64% of Michigan's new hires are enrolled and contributing at least 3% within 9 months of hire.

(4) Many employees are simply *unaware* that they can maintain their account after leaving State employment. Our strategic approach to retaining these assets will be to educate employees on the opportunity to maintain their account after retiring, and the reasons they may wish to do so.

**Deliverable:** Pay-out options brochure

This multi-purpose brochure will be designed to promote awareness of the opportunity to maintain an account – and consolidate accounts via in-kind rollover as well as the various pay-out options after separation from State employment. In addition, this piece will leverage the opportunity to reach out to "high-balance" account holders, to provide incentive to maintain their accounts. Content will focus on the advantages of , and encourage terminated employees and high-balance account holders to consider maintaining their accounts and/or consolidating their outside accounts into their account.

**Audience:** Retired employees

**Message:** When you retire or leave State employment, you can keep your account. You can also consolidate your in-kind accounts into your account. Why take a chance elsewhere? Stick with, and you'll benefit from: institutional pricing, familiarity with the Web site and phone line, availability of a Stable Value option, and a Investment Committee that continuously monitors all investment options.

**Distribution:**

- 1) Mailed automatically, through system-generated confirms, to newly terminated employees.
- 2) Direct mail to employees whose OMNI status indicates that they have left State employment, or whose account balances exceed \$50,000.

**Measurement:** Track rollovers out of the Plan and report trends/changes on quarterly basis.

**Deliverable:** Plan Overview Brochure (section content)

**Description:** The current Plan Overview Brochure will be revised to incorporate pre-emptive educational content regarding the opportunity to maintain a account after leaving State employment.

**Audience:** Plan content written primarily for newly hired employees, but will also be relevant to retirees and terminated employees.

**Message (this section only):** You can maintain your account after you leave State employment.

**Distribution:** Mailed automatically, through system-generated confirms, to newly hired employees. Also available by request through the Plan Information Line.

**Measurement:** Track rollovers out of the Plan and report trends/changes on quarterly basis, with emphasis on terminated employees.

**Deliverable:** Plan Information Kit (section content)

**Description:** A complement to the Plan Overview Brochure, this kit will be designed to provide basic education on the necessity of developing and maintaining a retirement savings strategy, and how can be a critical component of that strategy. Also included will be educational content regarding the opportunity to maintain an account after leaving State employment.

**Audience:** Plan content written primarily for non-participating employees, but will also be relevant to retirees and terminated employees.

**Message (this section only):** As part of your comprehensive retirement savings strategy, can help you meet your goals, even after you retire or leave State employment.

**Distribution:** Mailed to participants who request additional information through the Information Line.



**Measurement:** Track rollovers out of the Plan and report trends/changes on quarterly basis, with emphasis on terminated employees.

**Deliverable:** Newsletter (relevant content)

**Description:** As appropriate, newsletter articles will be developed to promote awareness of the opportunity to maintain an account after separation from State employment.

**Audience:** Current participants.

**Message:** When you retire or leave State employment, you can keep your account. Why take a chance elsewhere? Stick with, and you'll benefit from: institutional pricing, familiarity with the Web site and phone line, availability of a Stable Value option, the strategically focused age-based Lifecycle Income Fund, and a Investment Committee that continuously monitors all investment options.

**Distribution:** Newsletters are mailed with account statements.

**Measurement:** Track rollovers out of the Plan and report trends/changes on quarterly basis.

**Deliverable:** Local Office Outreach

**Description:** Local office will conduct callouts to high balance participants to maintain high level of personal service.

**Audience:** High balance participants over age 50 who are near retirement or currently retired.

**Message:** To maintain personal contact, Plan representatives will call participant to answer any questions and promote benefits of keeping assets in the Plan.

**Distribution:** Phone

**Measurement:** Track account balances of target population and report changes on quarterly basis.

**Deliverable:** Breakfast meeting/seminar

**Description:** Host breakfast/meeting for high balance participants. Meeting will focus on the benefits of staying in after leaving State employment and consolidating retirement assets. Stay in the Plan and Consolidate flyers will be available and participants will have ability to have one-on-one discussions with Plan representatives.

**Audience:** High balance participants

**Message:** Reinforce/communicate benefits of staying with after leaving State employment.

**Distribution:** Mail or email invite, if applicable

**Measurement:** Track attendance and monitor account activity among target population.

**Deliverable:** Personalized letter and custom giveaway

**Description:** Research shows individuals respond to personalized communication. Develop a personalized letter that reinforces the benefits of staying in after leaving State employment and encourage participants to call local office for help with any questions. Include higher-end giveaway, such as pen, business card holder or desk calculator.

**Audience:** High balance participants

**Message:** Reinforce/communicate benefits of staying with after leaving State employment.

**Distribution:** Mail

**Measurement:** Monitor account activity among target population.

(5) Most experts agree that at some point in the next 20 years, more Americans will be over 65 than under for the first time in history. This will mean that a tremendous strain will be exerted on all of our social systems designed to assist the elderly. As a result, the retirement savings account will become extremely important in guiding most of this generation through their 'mature years'. CitiStreet recognizes the need for special attention to this group and puts a specific focus on designing communication and education programs geared toward those individuals who are nearing retirement. Targeted messaging in the form of newsletters and individual mailings deal specifically with pre-retirement issues and many campaigns treat this group as its own segmented entity. CitiStreet will continue to accelerate overall efforts to identify and meet the needs of this rather large group.

#### **Services for Exiting Participants (SEP)**

CitiStreet's optional Services for Exiting Participants (SEP) is designed to assist participants who have terminated from service and are faced with decisions regarding their retirement plan account. Through this service, CitiStreet offers specialized services to separated (including retirees) plan participants through CSA LLC registered representatives with specialized knowledge regarding options for separated participants, including the benefits of remaining in the Plan, specific distribution rules, taxation of distributions, investment alternatives and retirement planning.



Our primary mission is to assist the Program in returning assets, not in cross selling annuities or IRAs. Services for Exiting Participants provide participants the information they need to make effective distribution decisions, when they need it. It is an important way to add value to retirement benefits that participants recognize and appreciate.

**CitiStreet Advice for Retiring Employees (CARE)**

CitiStreet Advisors also offers the CitiStreet Advice for Retiring Employees (CARE), designed to provide retirement counseling for participants contemplating retirement. CitiStreet Advisors will work with the Board to understand all sponsored retirement options, whether or not administered by CitiStreet. Materials will be customized for the plan and participants.

Additional strategies are incorporated in question 4 above.

(6) Please refer to **Appendix B**.

- C. Quarterly Participant Statements – To be mailed to all participants on or before the tenth business day after the end of each calendar quarter. The form for participant statements must meet the State's requirements. The statement should illustrate the participant's personalized rate-of-return and have the ability to include a section for customized messages from the State. See Exhibit C for current statement format.

(1) Describe your customization capabilities for participant statements.

(2) Describe how you will include other printed information, prepared by the State, with the mailing of statements to participants. Verify that this service is available at no additional cost.

**Contractor Response to Task VIII-C:**

(1) Items available for customization at no additional cost include: ad hoc sponsor messages, company logo, and individual participant rate(s) of return. Participants can further customize their statements utilizing the online statement function

(2) CitiStreet's Communications team has a dedicated Communications manager who works with the State to develop and create a quarterly news letter that is included with the statements. The newsletters can be customized to be sent to specific target populations within the quarterly statement process. CitiStreet staff will work closely with the State to develop and deliver additional employee printed information as required by the State to be mailed with the quarterly statements at no additional cost.

- D. Quarterly Newsletter to be mailed with participant statements: This will be customized for the State and will include information about plan provisions, new features available, timely reminders, and educational material to increase participation and diversification. Option to target alternate versions of the newsletter to a subset of participants. Recent newsletters can be found on the website at <http://stateofmi.csplans.com>.

**Contractor Response to Task VIII-D:**

CitiStreet will develop a custom newsletter that will accompany quarterly participant statements. Newsletter will highlight Plan-specific information and updates and educate participants on investment-related topics that support the Plan's goals, such as asset allocation, diversification, and the importance of saving for retirement. The newsletter will be redesigned with a new look and feel to compliment other communication materials and reinforce the Plan's identity. Targeted statement messages to specific groups will support customized approach to communication. More than one version of special newsletters will deliver the targeted messages on a quarter by quarter basis.



- E. Video Conference Facilities shall be available for communication with the State and participant education meetings.

**Contractor Response to Task VIII-E:**

CitiStreet will utilize any options the State can offer as well as provide options, which may include, but are not limited to video conferencing, webinars or eseminars

- F. Educational Seminars for Participants, in person and video
1. Types of Seminars – these seminars will provide transition and ongoing education covering features and operations of the Plans and investment concepts including risk and return. Topics will include but are not limit to:
    - a. New Employee seminars
    - b. 401(k) and 457 basic plan information
    - c. Introduction to Investments
    - d. Advanced Investing (including asset allocation)
    - e. Women in Investing
    - f. Pre-retirement seminars
    - g. Retiree seminars
    - h. Investment Advice
    - i. Seminars by Request
  2. Personnel conducting seminars shall be properly licensed (Series 6 and 63 exams at a minimum) with all required regulatory agencies to discuss plan provisions, investment concepts and retirement planning considerations. Once each year the TPA shall provide the State with a certification that all personnel were appropriately licensed during the preceding calendar year.
    - (1) How many onsite full-time field service representatives are you dedicating to the State?
    - (2) Describe how field service representatives will be available to discuss the Plans and investments with participants on a one-on-one basis. How often and how will these discussions be handled (i.e., in person, via telephone)?
    - (3) Identify the annual number of group meetings and number of one-on-one consultations you have assumed will be provided to the State by the field service representatives.
    - (4) As indicated in the minimum service qualifications, it is a requirement that your field service representatives that provide enrollment and education services are not compensated on a commissioned or incentive basis to promote any investment product or services. Fully describe the field service representative's compensation structure, and incentive awards methods that you employ to maintain an objective and unbiased distribution of products and service to the plan participants.
    - (5) Describe the structure of how the Lansing field service representatives would be organized to service this relationship:
      - Staffing (including functions to be performed)
      - Hours of Operation
      - How you would handle walk-ins?
      - Other locations



3. Location and frequency of Seminars: the following are the current number of meetings at each location. Ongoing development of contacts statewide will increase locations and meetings in the future.

Location	# of Meetings
Lansing	82
Detroit (Downtown)	19
Dearborn	7
Livonia	2
Sault Ste. Marie	4
Marquette	4
Escanaba	10
Muskegon	4
Grand Rapids	11
Holland	1
Flint	17
Saginaw/Bay City Area	10
Roscommon (Higgins Lake)	2

Location	# of Meetings
Cadillac	3
Traverse City	11
Port Huron	2
Benton Harbor	4
St. Joseph	2
Kalamazoo	3
Gaylord	6
Grayling	2
Ludington/Hart/White Cloud-Surrounding Counties	7
Tawas/Alpena-Surrounding Counties	6

#### Contractor Response to Task VIII-F:

1. CitiStreet currently has all of these seminars in place and also looks forward to adding more seminars as needed to fulfill any Communication objectives set forth by the State. One example is a 'Benefits of Staying in the Plan' seminar to help retain assets. As has been in the past and would continue in the future, the State has signoff on any presentations and Communication materials for their participants.

2. CitiStreet will provide any necessary certifications to ensure all personnel were/are appropriately licensed during the preceding calendar year or any other requested timeframe.

2 (1) CitiStreet currently has 3 local full-time employees that are 100% dedicated for the State of Michigan. We also propose adding two additional full-time, 100% dedicated field representatives to be based in Lansing/Dimondale or if the State prefers, we can base one in Lansing/Dimondale and one in Detroit. All of these employees would report to Heidi Schiller, Assistant Vice President and current local manager for the State. Heidi would continue to report to Kenje Mallot, Vice President of Governmental Field Operations. The team would be as follows:

- Heidi Schiller, Michigan Local Office Manager
- Lynne Bemrose, Michigan Office Coordinator and Ombudsperson
- Kyle Seymour, Michigan Field Representative
- Michigan Field Representative (TBD)
- Michigan Field Representative (TBD)





As we have noted elsewhere in this proposal CitiStreet is exploring establishing a national Participant Services Center to be based in Detroit. Drawing from the staff their 5 more representatives could be fully trained as field representatives for the State of Michigan. Just as the current field representatives, their activities would include conducting group seminars, handling one-on-one consultations, providing walk-in service, as well as assisting with any high-touch campaigns in addition to their handling of State of Michigan inbound and outbound participant calls. As CitiStreet envisions up to 55 employees initially in the Detroit Participant Services Center (PSC), we would be able to draw on any of those individuals as needed to service the State of Michigan locally.

2 (2) All of the CitiStreet field representatives will be available as needed for one-on-one consultations. With our proposed larger staff, one-on-ones can be handled in the following locations: in the local offices of Lansing/Dimondale or Detroit, in-person at the employee's work site, after a group seminar or over the phone. Typically on average CitiStreet field representatives handle 20 one-on-one consultations per week both in-person and over the phone—they can be scheduled ahead of time or be impromptu. Between the 5 employees in Lansing/Dimondale and the 5 based in the PSC in Detroit, we could easily handle (but are not limited to) 5,000 one-on-one consultations per year.

2 (3) Between the 5 employees in Lansing/Dimondale and the 5 based in the PSC in Detroit, we could easily handle (but are not limited to) 750 group meetings and 5,000 one-on-one consultations per year.

2 (4) As is true currently with any CitiStreet field representative, including the Michigan staff, and going forward, no CitiStreet field representative will receive any compensation based on a commissioned or incentive basis to promote any investment product or services.

Our field representatives' salary structure is salaried with the eligibility of a bonus based strictly on the State's goal—those current goals are based on number of group seminars and enrollment of new hires (the new hire campaign results).

2 (5) CitiStreet currently has 3 local full-time employees that are 100% dedicated for the State of Michigan. We also propose adding two additional full-time, 100% dedicated field representatives to be based in Lansing/Dimondale or if the State prefers, we can base one in Lansing/Dimondale and one in Detroit. All of these employees would report to Heidi Schiller, Assistant Vice President and current local manager for the State. Heidi would continue to report to Kenje Mallot, Vice President of Governmental Field Operations. The team would be as follows:

Heidi Schiller, Michigan Local Office Manager  
Lynne Bemrose, Michigan Office Coordinator and Ombudsperson  
Kyle Seymour, Michigan Field Representative  
Michigan Field Representative (TBD)  
Michigan Field Representative (TBD)

As CitiStreet is exploring a national Participant Services Center to be based in Detroit, 5 more representatives could be fully trained as field representatives for the State of Michigan. Just as the current field representatives, their activities would include conducting group seminars, handling one-on-one consultations, providing walk-in service, as well as assisting with any high-touch campaigns in addition to their handling of State of Michigan inbound and outbound participant calls. As CitiStreet envisions up to 55 employees initially in the Detroit Participant Services Center (PSC), we would be able to draw on any of those individuals as needed to service the State of Michigan locally.

- Hours of Operation

8:30 a.m. - 5:00 p.m. would be the local office hours for calls and walk-ins. Group seminars could be scheduled outside of these hours to help meet different location/employee needs.

- How you would handle walk-ins?

Walk-ins would be welcome and would be handled on a first come, first served basis. Walk-ins would also take priority over a phone call. We would staff the office accordingly, typically having 2 employees in the office at all times, never less than 1 employee. If ever there were a time, we had a participant waiting, we would offer them the option to wait or set up a scheduled appointment if they prefer.

- Other locations

The primary office would be Dimondale, but we would also have the Participant Service Center available in Detroit.



CitiStreet will not only continue to present in the current locations, but also look to branch out to several other areas, the goal being to visit each county with State employees at least once per year, if not once per quarter minimum. CitiStreet feels it can achieve this goal with the additional local staff and also utilizing other technologies, such as webinars/e-seminars and videoconferencing.

- G. On-Site Staff in Lansing: Sufficient staff, currently three (3) full-time representatives, will be responsible for conducting all seminars, providing one-on-one meetings with participants as needed, conducting a "personal touch" program to contact all new employees by phone, e-mail and regular mail, and providing local expertise about the plans, systems, reports, etc. They will also provide support as needed to the Michigan staff.

**Contractor Response to Task VIII-G:**

CitiStreet would continue to provide the current staff of 3 full-time representatives and the additional local staff of 2 more representatives (plus the potential for 5+ trained field representatives from the PSC in Detroit). These representatives would be responsible for all of the services mentioned in the question and for any services the State and CitiStreet agree to add in the future.

- H. All new employees since 3/31/97 must be enrolled in the 401(k) Defined Contribution Plan. Along with providing these employees with the DC plans information, the TPA will also provide information about the retiree health, dental, disability and death benefits to which they are entitled and where the employee can go to get more information (the State). The basic benefit information will be provided to the TPA by the State. The TPA will incorporate this information into the New Employee Packet, Payout Guide, web site, and phone system.

**Contractor Response to Task VIII-H:**

CitiStreet will integrate messages conveying available retiree benefits into new employee and other appropriate Plan communications, including the New Employee Packet, Payout Guide, web site, and seminars. Messages will cover health, dental, disability and death benefits, as specified by the State of Michigan. A separate fact sheet may be developed as well. All communications will direct participants to the State for additional information.

IX. Technology and Systems

- A. Keep duplicate or back-up computer data files maintained in connection with the plans in a place of safekeeping satisfactory to the State. All computer data files of the Plans as maintained by the TPA shall at all times remain the property of the State 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 TPA. The State or its representatives shall, 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 TPA, the TPA shall provide the State with assurances from the owner of such computer facilities, satisfactory to the State, of continued availability and security of such records at all times.

**Contractor Response to Task IX-A:**

Historical information is stored online for 18 months and offline for 7 years on tape backup files according to the schedule described in our response to the question above.

The recall and restore process would be as follows:

- Establish a corresponding area in which to load the recalled version of the data.
- Retrieve the appropriate backup tapes as required.
- Load (Delete, Define, and Repro) the data from the tapes into the established area.
- Verify the data loaded is appropriately dated, is accurate and complete.

We can retrieve historical information within three to five business days

Our OLTP databases (used for participant web, VRU and for our participant service representatives) are fully replicated in a real-time basis across two different physical sites.

Our core OmniPlus recordkeeping database is fully replicated each night between two different HP UNIX SuperDome computers at two different physical sites. In addition, tape backups are created, and kept at a separate physical facility than the primary computer for that client, and retained on the following schedule:





Daily Backups – 7 days  
Year-end Backups – 7 years

All sensitive data received and/or processed within CitiStreet has strict controls regarding how and when it is printed or transmitted. Examples include information that contains a combination of full name and corresponding Social Security Number and the combination of a Personal Identification Number (PIN) and any other data pertaining to the owner of the PIN. Such restricted data is not printed on any reports except as required by regulation, (i.e., Form 1099R) and is not transmitted from CitiStreet in a non-encrypted manner. Further, Restricted Data is not stored on non-encrypted removable media (e.g., CDs, diskettes and USB keys), or provided to any employee or temporary employee who has not complied with CitiStreet's Human Resources employee background verification procedure.

B. Maintain a documented disaster recovery plan in place.

- (1) Who has the ultimate responsibility/authority to make sure recordkeeping software remains current to laws, regulations, and client needs?
- (2) How long have you used these systems for defined contribution recordkeeping?
- (3) Are you planning any major change in the software or hardware supporting your recordkeeping system in the next 24 months? If yes, please describe.
- (4) Describe your documented disaster recovery plan. How often do you test your recovery system?
- (5) Where is your main data processing center located? Where is your back-up center located?
- (6) Where is your customer service center located? Do you have a back-up customer service center? If so, where is it located?
- (7) Describe your maintenance and back-up procedures including daily back-ups, retention timetable, and off-site back-up storage approach.
  - a) Describe any system outages within the last three years and how have they been handled?
  - b) Has any liability resulted from these outages and are there any pending claims related to these outages?
- (8) Explain your disaster recovery plans and procedures to handle the following situations
  - a) Loss of inbound telecommunications services
  - b) Individual system failure including the following systems: PBX (Private Branch Exchange), VRS (Voice Response System), application server, case management system
  - c) Loss of power
  - d) Loss of daily backup/natural disaster
  - e) Outages: Provide information on how short outages (2 hours or less) vs. prolonged outages (more than 2 hours) would be handled.
- (9) Describe the most severe disaster that has occurred at your facility and explain the cause, how it was handled, and what steps were taken to prevent future occurrences.
- (10) Describe the method of maintaining plan sponsor and participant history on the system.



- (11) Can historical information, such as management reports, be stored on CD-ROM (Compact Disc-Read-Only Memory)?
- (12) Describe in detail your procedures and safeguards used to guarantee:
  - a) Security for your hardware and facility
  - b) Authorized access to data
  - c) Confidentiality of data
  - d) Security for any hard copy of plan-related data or documents

**Contractor Response to Task IX-B:**

(1) CitiStreet (then, State Street) purchased the OmniPlan system, including full source code, from what was then Dyatron in 1987. Since that time we have maintained the integrity of the Omni (since purchased by SunGard) base code while making substantial enhancements to the capabilities via user exits, calculators and integrated proprietary systems.

CitiStreet's Legal Division and Fiduciary Control Units are responsible for assessing new or pending legislation and regulatory changes affecting defined contribution plans. CitiStreet continually monitors changes in applicable law and regulations to ensure that our qualified plan compliance methodology is kept current and accurate.

The OmniPlus recordkeeping software vendor, SunGard, updates software to comply with all legislative changes.

CitiStreet does have the ability to modify the software for our recordkeeping system.

(2) CitiStreet (then, State Street) purchased the OmniPlan system, including full source code, from what was then Dyatron in 1987.

(3) CitiStreet plans no conversions or major upgrades to our recordkeeping or trust systems in the next 24 months. Three years ago we converted all our client plans to OmniPlus, the most current version of our SunGard recordkeeping technology. Since then we have had evolutionary changes in our systems. We are constantly evolving to newer/faster computer hardware and software architectures to provide better scalability and security.

CitiStreet continuously enhances the functionality of the participant web site with three scheduled releases each year. We take pride in maintaining industry-leading functionality while keeping the site uncluttered and intuitive for the user. In fact, CitiStreet's web site was just awarded the Dalbar Seal of Excellence. The Seal is awarded to outstanding Web sites that effectively and efficiently meet the needs of plan participants.

We continuously research and assess prospective enhancements through competitive analysis, benchmarking reviews, and most importantly, ideas presented by our clients.

Recent enhancements include integration with Quicken and MS Money, Roth 401(k) option, online surveys, paperless delivery of confirmation statements. In addition we expanded the online Financial Resource Center, which offers the participant the ability to create "My Resource Center" – a personalized e-curriculum based on an individual's knowledge level, preferred method of learning (reading, audio, video) and areas of interest.

Other major enhancements in the next twelve months will include significant navigational improvements to the site and enhanced investment research / information capabilities and Direction-for-Life.

**Enhanced online calculators**

In January 2007 enhanced calculators replaced the existing calculators available to all defined contribution plan participants through the plan's participant web site. These calculators give more than fifteen separate scenarios and in fact function as multiple calculators.



As part of our mission to provide participants Direction-for-Life™, the new **Plan Savings Calculator** and **Retirement Income Calculator** are simpler and easier to use. They combine previous functionalities into just two calculators and add new capabilities to help participants understand their retirement planning needs. The calculators provide Direction-for-Life by helping them make three key decisions:

- To enroll in the plan
- To increase deferrals
- Consider the impact of loans and withdrawals

#### **Plan Savings Calculator**

This calculator can show you the impact of your savings efforts in your Plan. You can use the variable input fields to model:

- Your savings growth over time
- The effects your plan contributions have on your take-home pay
- The effects taking a loan against your plan savings will have
- The effects making a withdrawal will have on your plan savings

You can also link to the Retirement Income Calculator to see how long your plan savings will last during retirement, based on a monthly distribution and annual rate of return you select.

#### **Retirement Income Calculator**

This calculator can show you how long your savings could last in retirement based on:

- Your savings balance at retirement- this amount can be calculated using the Plan Savings Calculator and then linking to this calculator, or you can enter the amount yourself
- The interest rate your saving will earn in retirement
- The amount of time you expect these savings to last in retirement- as you adjust this time frame, your total savings amount will calculate into monthly payments

The calculators will be easier for participants to use and help simplify the decision-making process:

- A single user interface eliminates the need to click from page to page
- The Plan Savings Calculator establishes a “baseline” of participants’ current retirement projection and paycheck analysis information—not hypothetical information—to enable participants to compare all future plan decisions to the baseline scenario

By offering concise, easy-to-use tools to help participants reach decisions in less than one minute, the calculators offer participants a powerful incentive to save. What’s more, the online calculators enable participants to see how their take-home pay is affected based on various contribution scenarios and how those contributions grow over time. A future enhancement will enable after-tax Roth 401(k) vs. traditional pre-tax 401(k) contribution scenarios.

#### **Safe Harbor IRA Rollover Product**

CitiStreet also rolled out the Safe Harbor IRA Rollover product and “The Income Solutions®” product which allows a participant to pensionize part of his or her retirement savings, effectively converting a portion of their savings into a regular, insured income to pay essential expenses.

#### **Plan Sponsor:**

##### **Plan Sponsor Web site**

CitiStreet recently rolled out an exciting new reporting capability in Sponsor Connect. In partnership with Business Objects, the Sponsor Connect reporting feature includes not only participant and plan data, but also call center, participant internet, transaction processing, and participant research data for drag and drop report development with high-end graphical / chart output.

Further, Sponsor Connect offers an Executive Dashboard section which quickly provides, via user-friendly graphical displays, critical plan and service information, with the capability to deep-dive into trend analysis. Baseline Executive Dashboard information includes plan assets, participation overview, telephone service levels, transaction volumes, and participant internet activity.



(4) Our participant front-end systems (Voice Response System, Internet, Participant Service Workstation) run in a UNIX environment that is fully replicated across two different CitiStreet facilities. The phone switch, voice response units, web servers, application servers and Oracle databases exist in two or more locations. These duplicate environments are sized to be able to handle the full volume should we have to switch over to one site. In some cases, both sites are active 100% of the time, therefore are constantly being "tested" and the others are in place as live backups.

- To ensure no interruption of service, there are fully redundant Call Centers, Avaya phone switches and IBM IVR/CTI equipment in both Massachusetts and Florida. Calls can be immediately rerouted via access to the AT&T network.
- There are fully redundant web hosting capabilities currently in place in both Massachusetts and Florida. Any outage would cause an immediate switch over to the other site. Each of these sites has 'bandwidth on demand' to handle spikes in utilization.
- There are fully redundant/replicated Oracle OLTP and DB2 Single Sign-On databases utilized by the Call Center, IVR and web capabilities. Any outage would cause the J2EE middleware software to fail over to the other database.

For those that are live backups, they are "tested" frequently when we are doing maintenance in one location and have to redirect participant traffic to the second location. This happens on average of once a month. Therefore, no component of our duplicated environment goes unused or untested for a long period of time. When we divert intentionally from one environment to another, there is no downtime. When we experience an unplanned failure, resulting from either external or internal events, there is currently an outage of 5 to 15 minutes while we diagnose the problem, determine if there is a quick recovery for the primary site and, if not, then reroute the traffic to the alternate site.

The record keeping environment runs on an HP-UX SuperDome which has a recovery capability at another CitiStreet site. We test our applications at least once per year in this environment, running the basic processing each time we test, along with a test of a subset of subsidiary functions each time. Our goal is a maximum of an 8 hour outage for the core recordkeeping system under any circumstances. This is possible because our data always exists in the other physical location and no shipping of tapes, etc. is required.

CitiStreet performs full-scale disaster recovery tests on an annual basis. Much of our infrastructure consists of fully redundant components and are thus 'tested' on a more frequent basis as we do hardware upgrades, etc.

(5) CitiStreet utilizes a pair of fully redundant HP Superdome UNIX servers. Your primary configuration would be in Massachusetts with overnight replication to a separate facility in Florida.

(6) CitiStreet has three fully redundant participant service centers located in North Quincy, MA, Lewiston, ME, and Jacksonville, FL. Primary responsibility for the State of Michigan would be located in North Quincy, MA. This means no interruption in service.

(7) Our OLTP databases (used for participant web, VRU and for our participant service representatives) are fully replicated in a real-time basis across two different physical sites.

Our core OmniPlus recordkeeping database is fully replicated each night between two different HP UNIX SuperDome computers at two different physical sites. In addition, tape backups are created, and kept at a different separate physical facility than the primary computer for that client, and retained on the following schedule:

Daily Backups – 7 days  
Year-end Backups – 7 years

(7a) We have experienced no major interruption in telephone or recordkeeping operations in the past three years.

The public utility substation that provides electrical power to CitiStreet is fed from two separate power grids. In addition, CitiStreet has redundant 15KVA electrical feeds to the building from the utility substation; the redundant feeds terminate at a utility company switch that is capable of transferring from the primary feed to the backup feed without interruption.



In the event of a failure of both of the power feeds from the utility company, the entire building is backed up by a 2000KW generator that provides power directly to the building electrical room. Power from the public utility switch is routed through the automatic transfer switch (ATS) at the generator; if the ATS detects a loss of power the generator will start in approximately 30 seconds and provide 13.8KW power to the building.

In addition, CitiStreet maintains a 500KW generator that provides emergency power to critical areas in the event the primary generator does not engage. The critical spaces are the UPS system, the computer and telco rooms, life safety systems in the building, and the Participant Services Center.

CitiStreet's recordkeeping computers are on an Uninterruptible Power Supply which has 35 minutes of capacity. In addition, we have a fully replicated configuration in another state that could take over processing in case of any major issue at the primary site. Most importantly, no power outage downtime would be noticeable to a participant, either on the web or the voice response unit.

(7b) No.

(8a) We can re-route inbound calls via the 'cloud' to either our Massachusetts or Florida locations.

(8b) All of these applications are fully redundant across geographically disbursed sites.

(8c) Each facility has full backup via onsite generator.

(8d) All of our data is replicated each evening over our triangulated T3 datalines between geographically disbursed locations.

(8e) With short outages (which do happen) there would be no impact on the participants. All of our applications would be switched to the fully redundant geographically disbursed alternate location. This can happen within minutes. In a prolonged outage, we would also move the core recordkeeping systems to the alternate location.

(9) As a result of an extended (i.e., 6 hours) electrical outage at our Massachusetts facility several years ago, CitiStreet made a significant investment to upgrade our backup generator from just being able to handle the datacenter and select desktops (including the contact center however) to sufficient capacity to support the whole building. Even during that extended outage, there was no adverse impact to participants. However, we decided to make this investment to preclude future impact on our non-customer facing functions.

(10) The data in our OmniPlus systems are replicated daily in a fully redundant set of facilities in Massachusetts and Florida.

Historical information is stored online for 18 months and offline for 7 years on tape backup files according to the schedule described in our response to the question above.

The recall and restore process would be as follows:

- Establish a corresponding area in which to load the recalled version of the data.
- Retrieve the appropriate backup tapes as required.
- Load (Delete, Define, and Repro) the data from the tapes into the established area.
- Verify the data loaded is appropriately dated, is accurate and complete.

We can retrieve historical information within three to five business days.

(11) All sensitive data received and/or processed within CitiStreet has strict controls regarding how and when it is printed or transmitted. Examples include information that contains a combination of full name and corresponding Social Security Number and the combination of a Personal Identification Number (PIN) and any other data pertaining to the owner of the PIN. Such restricted data is not printed on any reports except as required by regulation, (i.e., Form 1099R) and is not transmitted from CitiStreet in a non-encrypted manner. Further, Restricted Data is not stored on non-encrypted removable media (e.g., CDs, diskettes and USB keys), or provided to any employee or temporary employee who has not complied with CitiStreet's Human Resources employee background verification procedure.



(12 a-d) CitiStreet takes the security of information--our customers' and their participants'--very seriously. We take great steps to protect personal participant information and sponsor data, and we believe that every employee is responsible for information security. To help accomplish this objective, CitiStreet continues to monitor and implement safeguards through a comprehensive information security (IS) policy in addition to our restricted and confidential data policy.

CitiStreet has IS policies and standards covering all aspects of our business and technology worldwide, and we work closely with our parent companies, vendors and customers to ensure compliance with these policies and standards. These safeguards include:

- Dedicated IS organization at all business locations, including corporate and regional IS compliance officers
- Employee information is accessed only when required for conducting business for that plan, and is handled with utmost care and security
- CitiStreet promotes IS awareness among its management team and employees through mandatory annual training for all employees and new hires, with supplemental training as needed
- CitiStreet's infrastructure and systems, applications and access, firewalls, relationships with vendors and systems releases are all subject to strict controls and procedures

As a testament to our industry-leading policies, CitiStreet was selected to deliver an information security presentation at the ISCEBS symposium. CitiStreet's Patricia Long and Karen Bruner Upright delivered the workshop presentation, "Information Security: Protecting a Firm's Most Valuable Assets" to help attendees learn what information security is and what can be done to protect members' or participants' information physically and electronically.

CitiStreet has robust security, both in regards to our technical infrastructure and applications themselves in regards to data access. All access to data is on an 'as needed' basis only and requires specific authorization from the relevant member of management. All access requirements are re-affirmed on a quarterly basis.

CitiStreet requires a User ID and Personal Identification Number (PIN) to access accounts and perform transactions via the Internet, Participant Service Representative or IVR. Failed account access, determined by ineligible PIN and User ID combination, will generate a PIN reminder (in a sealed self-mailer) to the address of record. We have full capabilities in place to support the unique requirements of each of our clients.

Personal identification numbers (PINs) are assigned through the system using complex algorithm programming. Participants can change their PIN at any time through the interactive voice response system, Participant Service Representative or Internet, however the original PIN must first be entered to gain access to this function. The PIN is held in encrypted format in a centralized IBM DB2 authentication database (which is real-time replicated across two different physical sites).

CitiStreet has a Chief Information Security Officer, who reports to the Corporate Chief Information Officer, along with Information Security Officers within each division. There is an information management policies, standards and procedures document, which we update regularly. In addition to the yearly SAS 70 audit, CitiStreet has internal audits performed at the request of the Audit Subcommittee of the Board. We also conduct ongoing, informal reviews within our IT group to ensure compliance.

CitiStreet currently has an extensive technology infrastructure in place for security and intends to constantly re-evaluate and improve this key discipline. Some key components include:

- CISCO PIX firewalls in front of and behind our internet subnet
- Intrusion detection infrastructure monitoring all of our network segments
- 'Hardening' of all servers
- Constant monitoring of security advisories
- Constant monitoring of security patches relating to operating systems, web servers and database software





CitiStreet has very specific policies relating to the confidentiality of data. We classify data as either Restricted (name and SSN or either name or SSN and PIN) or Confidential (name or SSN with another significant piece of data on that participant). Controls include the use of encryption on e-mails, clean desk policies and secure shredding bins.

### **Restricted & Confidential Data Overview**

CitiStreet recognizes that the safe, continuous flow of sensitive information is critical to its business. Accordingly, CitiStreet is committed to protecting the best interests of our participants, clients and employees. In furtherance of this commitment, CitiStreet has implemented numerous safeguards to protect such information. Such safeguards include, without limitation, the following:

**Restricted Data** - All sensitive data received and/or processed within CitiStreet has strict controls regarding how and when it is printed or transmitted. Examples include information that contains a combination of full name and corresponding Social Security Number and the combination of a Personal Identification Number (PIN) and any other data pertaining to the owner of the PIN. Such restricted data is not printed on any reports except as required by regulation, (i.e., Form 1099R) and is not transmitted from CitiStreet in a non-encrypted manner. Further, Restricted Data is not stored on non-encrypted removable media (e.g., CDs, diskettes and USB keys), or provided to any employee or temporary employee who has not complied with CitiStreet's Human Resources employee background verification procedure.

**Confidential Data**- Confidential Data includes personal information related to any client or participant (e.g., data that includes full name or Social Security Number combined with either salary, account balance, contribution amount or benefit amount). Reports that include such confidential data are shredded upon disposal. Confidential data must be encrypted before transmission. If confidential data is stored on a CD or diskette, even for backup purposes, the CD or diskette must be maintained in a locked desk or file cabinet when not in use.

Further, no restricted or confidential data is allowed to be stored in any database, including Microsoft Access, which is outside the formal secured infrastructure of CitiStreet's Information Technology department.

**Electronic Communication**- There is a clear understanding that employees are prohibited from using any equipment belonging to CitiStreet for instant messaging. Known e-mail portals such as AOL or Hotmail have been blocked and are not permitted for the transmission of any CitiStreet business. Devices such as Blackberries are not authorized for any use by CitiStreet employees other than paging and a response that the page has been received, either internally or with any external contacts.

**Vendors**- CitiStreet's vendors are an extension of CitiStreet to our clients. As such, we require our vendors to follow similar guidelines when handling restricted or confidential data.

In order to efficiently and safely send files back and forth, CitiStreet will work with the County to enable an encrypted transmission capability. Among the methods we offer are:

- Encrypted FTP transmissions over the Internet
- Browser based transmissions within our SponsorConnect portal
- VPN (virtual private network) transmissions over the Internet

**Laptop - Field Offices** - All laptops in the field have not only a LAN ID that is unique to each representative and password protected with password updating required every 30 days, but also have an application (Pointsec) that fully encrypts the hard drive. In order to access the laptops disk, another ID is then required for Pointsec. Multiple incorrect attempts to log-in will lock the laptop, and only a CitiStreet Help Desk employee would be able to assist with unlocking the laptop. In addition, the Pointsec ID reset goes through only certain individuals at the Help Desk as an additional security measure.

All CitiStreet employees, including field representatives, are prohibited from having any files personal data listed together or saved anywhere on their computer without encryption. Field representatives have no way to download data from our database. The only way a Field rep can access personal information is by logging into CitiStreet's websites which requires them to be connected to our server (they cannot access without an internet connection). This would require the use of another custom ID and password.



- C. Provide access to the State to all back-up source materials, reports, books, records, computer programs and all other information and documentation relating to each plan, as reasonably required so that the State and/or its designated officers, agents and accounts, can conduct a financial examination and/or audit of the plans.

**Contractor Response to Task IX-C:**

CitiStreet will provide access to the State to all back-up source materials, reports, books, records, computer programs and all other information and documentation relating to each plan, as reasonably required so that the State and/or its designated officers, agents and accounts, can conduct a financial examination and/or audit of the plans.

- D. Online Services for Michigan Staff – TPA will provide software to allow State staff to research all information in participant's accounts and to generate reports as needed.
- (1) Describe the online capabilities that your system provides for the plan sponsor to access plan and participant level information.
  - (2) Describe the plan sponsor's ability to access participant level activities via the Internet using customized date ranges to view daily purchases and redemptions.

**Contractor Response to Task IX-D:**

(1+2) Staying in touch with your plan operations is critical to your ability to make strategic benefit decisions. CitiStreet makes this possible through state-of-the-art communication channels. Sponsor Connect<sup>SM</sup>, a central online entry-point to CitiStreet's array of reporting and management tools, gives you the easiest access to information and the most convenient ways to manage your plans. The program is a user-friendly, menu-driven application easily supported by any personal computer with web access.

**Plan Access -**

***Online Plan and Participant Information***

CitiStreet's user-friendly, internet-based solution delivers your plan and participant recordkeeping information right to your desktop. Featuring the highest level of security through your own unique access code, Plan Access ensures the integrity and confidentiality of your data. The comprehensive, real-time information available through Plan Access includes:

- Plan-level data, such as plan summary, balances, fund information and fund prices.
- Participant-level data such as demographics, balances, investment elections, loan information, transaction history, deferral rates and disbursement information.

**Reporting –**

***Customizable Reports***

Available through Sponsor Connect, Reporting is a report generation tool containing valuable plan and participant-level detail. Reporting provides you with information that complements the standard reports already available to sponsors. Reporting also allows you to format the data in a way that best suits your needs and create reports on your own time, at your own convenience. Through Reporting, you can:

- Access a library of standard management reports.
- Customize reports by selecting from a wide range of information.
- Format, print or download reports to spreadsheets on your own PC.
- Select graphic presentations of your reports for easier viewing.
- Save or re-run reports at any time.

Below is a sampling of the 200+ already created reports that you will be able to easily request:

- Participation percents by group/division or bargaining unit
- Participation percents by gender
- Participation percents by salary ranges
- Number of participants contributing to specific investments
- Average participant balance
- Average terminated participant balance
- Number of participants making maximum contributions





- Term deferred participants
- Deferral percentages
- Investments by fund with balances
- Brokerage Account participants and balances
- Beneficiaries
- Current balance over \$5000
- Transfers between funds
- 70 1/2 participants
- Labels for various mailings

With Reporting, you can monitor important plan trends, such as plan participation, investment allocations, participant demographics and inter-fund transfers, among others. Ultimately, this information can help manage your plans more efficiently, including creating more targeted employee communications.

- **Access to Project Management Section**
  - Allows client to view implementation and ongoing project plans
  - Status reports are stored here for easy viewing and verification
  - Outstanding issues are updated until complete
- **Access updated plan sponsor newsletters**
- **Access updated transaction statistics**

In early 2006, CitiStreet deployed an exciting new reporting capability in Sponsor Connect<sup>SM</sup>. In partnership with Business Objects, the Sponsor Connect<sup>SM</sup> reporting feature expanded to include not only participant and plan data, but also call center, participant internet, transaction processing, and participant research data for drag and drop report development with high-end graphical / chart output.

Further, Sponsor Connect<sup>SM</sup> now offers an Executive Dashboard section which will quickly provide via user-friendly graphical displays critical plan and service information, with the capability to deep-dive into trend analysis. Baseline Executive Dashboard information will include:

#### Online "dashboards"

- Quick, customized view in graph format provided on Sponsor Connect provides a single source for concise summaries of operational metrics and other key data
- Historical trend analysis
- Four standard "dashboards" are available
  - Plan assets by investment as of last valuation
  - Participant status summary pie chart as of last month end
  - Contact table containing stats as of last month end
  - Transaction table containing transaction counts for the last calendar month

#### X. Investments

- A. The 401(k) and 457 Plans currently offer participants a three (3) Tier investment approach with multiple fund options.

Tier 1: Stable value fund, passively managed funds and lifestyle funds;

Tier 2: Actively managed funds; and

Tier 3: Self-Directed Brokerage Account including individual securities and mutual funds and Exchange Traded Funds. See Section 1.104b for details.

The State is looking to maintain this investment approach by replacing the investment options in Tier 1 with new proposed funds and retaining the actively managed funds in Tier 2. The State is seeking a bundled provider to fully support the Plans, offering an investment structure with competitive funds. The investment options may be either in-house or outside alliances, and shall offer broad diversification opportunities, excellent returns and competitive expense levels. A fund mapping conversion method will be utilized with respect to the transfer and consolidation of funds into the new investment line-up in Tier 1.



Under this approach, all assets in the Plans will be transferred into similar investment options within each asset class of the new investment manager. You are to propose a single alternative fund recommendation in each of the categories listed below for Tier 1. Your proposal response must include a list of your top fund recommendations. Your proposed funds can include mutual funds, separate accounts and/or commingled funds.

The proposed investment structure for Tier 1 consists of six (6) core funds plus three (3) risk-based asset allocation funds.

**Tier I Options currently in both plans:**

SsgA Yield Enhanced STIF  
SsgA Stable Value  
SsgA Bond Market Index  
SsgA S&P 500 Index  
SsgA Russell 2000 Index  
SsgA Conservative Asset Allocation  
SsgA Moderate Asset Allocation  
SsgA Aggressive Asset Allocation

The State is considering implementing target retirement date lifecycle funds. In addition to the risk-based asset allocation funds, please also propose 5-10 target retirement date investment options. Please note that the default fund is the money market fund. The State may change this default fund.

- (1) Identified in Exhibit I is the proposed investment structure for Tier I. For each investment category, please identify a single fund which your organization recommends as an alternative to the Plans' current funds in that category. Please furnish all the information requested in Exhibits I through V in the format provided. Please be certain to provide the fund's official name (*including share class and ticker symbol*) to allow us to obtain additional information on the funds through outside services. The Plans require that participants be able to freely transfer assets between the funds recommended by your organization; therefore, the funds recommended should be non-competing vehicles. Please fully describe any situation in which the recommended funds would be considered competing and provide an explanation of how your organization would address or circumvent this issue.
- (2) For each recommended fund, please provide:
  - A description of the fund's investment philosophy and strategy. For fixed income funds, this should include strategies regarding duration, the yield curve, sector selection and security selection. For equity funds, this should include details regarding the manager's buy/sell discipline, portfolio construction including the use of derivatives and security selection, and investment style (i.e., deep value, conservative growth, etc.);
  - A biography of the current portfolio manager and how long that person has acted as portfolio manager;
  - For equity funds: expense ratios and benchmarks;
  - For fixed income funds: average quality, average maturity, duration, yield, etc;
  - For asset allocation funds: asset allocation, fund composition, benchmarks, etc.
- (3) For each recommended fund in Tier 1, please provide the basis points you would receive in revenue sharing from the investment managers. This data should be inputted in the "Revenue Sharing %" column in Exhibit II. Please ensure that the 12b-1 fees for each fund are included in the revenue sharing column.



- (4) For the asset allocation investment vehicles, provide each portfolio's underlying funds and asset allocation breakdown for the period ending September 30, 2006. Additionally, if you are proposing customized lifecycle funds, describe how you would determine asset allocation for the portfolios and re-balancing frequency.
- (5) For each fixed-income investment vehicle, provide the average maturity, average duration, average credit quality, average coupon. Also, provide % sector breakdown to Treasury/Agency, corporate, mortgage-related, asset-backed, foreign, cash equivalents, other. Provide % invested in AAA, AA, A, BBB, BB, B, below B and any related limitations or percentages of assets that can be allocated to any one issue or issue class.
- (6) For each investment vehicle, please provide quarterly total rate of returns (net of fees). Refer to Exhibit II.
- (7) Describe if any of the recommended funds have minimum balance requirements or any other types of transfer restrictions.
- (8) Do any of your recommended funds have redemptions fees? If so, please identify the fund(s) and the applicable fees.
- (9) The State is looking to retain the current investment vehicles in Tier 2 as listed below. However, the TPA may consider offering the lowest cost share class available for these investment options. In Exhibit VI, please indicate the share class you will propose, ticker symbol, the expense ratio, 12b-1 fees, and revenue sharing that you will receive from the fund managers.

**Contractor Response to Task X-A:**

Please see Exhibit I - VI

**Tier 2 Investment Options**

<b>Asset Class</b>	<b>Fund</b>	<b>Ticker Symbol</b>
Long Term Bond	Western Asset Core Bond FI Fund	WAPIX
Balanced	MFS Total Return A Fund	MSFRX
Large Cap Value	Dodge and Cox Stock Fund*	DODGX
Large Cap Growth	Legg Mason Large Cap Growth Y	SBLYX
Mid Cap Value	Lord Abbett Mid Cap Value A Fund*	LAVLX
Mid Cap Growth	Artisan Mid Cap Inv Fund*	ARTMX
Small Cap Value	STI Classic Small Cap Value I Fund*	SCETX
Small Cap Growth	Columbia Acorn Z Fund	ACRNX
International	American EuroPacific A Fund	AEPGX
International	Templeton Foreign A Fund	TEMTX
Emerging Markets	SSgA Emerging Markets Fund	SSEMXX

\*Funds closed to new investors.

**TERMS AND CONDITIONS**
**CONTRACT NO. 071B7200333**

**Exhibit I – Tier 1: Fund Characteristics**

The proposed investment structure for Tier 1 consists of six (6) core funds plus risk-based asset allocation funds. The State is considering implementing target retirement date lifecycle funds. In addition to the risk-based asset allocation funds, please propose 5-10 target retirement date lifecycle funds.

The current default fund is the money market fund, however, the State may change this.

Fund Category	Recommended Fund	Ticker	Vehicle Type (M, C, SA)*	Inception Date	Portfolio Manager	Tenure (Years)	Assets (mil) as of 09/30/06	Expense Ratio (%)	12b-1 (%)	Revenue Sharing (%) Include 12b-1	Other provisions* *
Money Market	SSgA Yield Enhanced Short Term Investment Fund	N/A	C	31-Jan-92	Maria Pino	9 Years	\$1,808.52	0.110	0.00	0.08	N/A
Stable Value	SSgA Stable Value Fund**	N/A	SA	1-Jul-97	Team Managed	Since inception	\$1,316.02	0.120	0.00	0.07	N/A
Core Bond	SSgA Passive Bond Market Index SL Series Fund - Class L	N/A	C	31-Jan-97	John Kirby	5 Years	\$22,195.80	0.130	0.00	0.07	N/A
S&P 500 Index	SSgA S&P 500 Flagship SL Series Fund - Class C	N/A	C	1-Jan-78	James May	12	\$78,162.84	0.055	0.00	0.04	N/A
Mid Cap Index	SSgA S&P MidCap Index SL Series Fund - Class C	N/A	C	1-Aug-89	Dwayne Hancock	8 Years	\$4,934.79	0.120	0.00	0.08	N/A
Small Cap Index	SSgA Russell 2000 Index NL Series Fund - Class C	N/A	C	30-Sep-96	Karl Schneider	5 Years	\$6,381.37	0.240	0.00	0.17	N/A
Risk-Based Lifestyle	SSgA Conservative Strategic Balanced SL Fund	N/A	C	1-Jan-00	Team Managed	Since inception	\$267.27	0.190	0.00	0.08	N/A
Risk-Based Lifestyle	SSgA Moderate Strategic Balanced SL Fund	N/A	C	1-Jan-00	Team Managed	Since inception	\$805.91	0.180	0.00	0.08	N/A
Risk-Based Lifestyle	SSgA Aggressive Strategic Balanced SL Fund	N/A	C	1-Jan-00	Team Managed	Since inception	\$509.44	0.180	0.00	0.08	N/A
Target-Date Lifecycle	SSgA Target Retirement Income SL Series Fund- Class A	N/A	C	31-Mar-05	Dan Farley	Since inception	\$194.55	0.220	0.00	0.08	N/A
Target-Date Lifecycle	SSgA Target Retirement 2010 SL Series Fund- Class A	N/A	C	31-Mar-05	Dan Farley	Since inception	\$637.49	0.180	0.00	0.08	N/A
Target-Date Lifecycle	SSgA Target Retirement 2020 SL Series Fund- Class A	N/A	C	31-Mar-05	Dan Farley	Since inception	\$869.84	0.180	0.00	0.08	N/A
Target-Date Lifecycle	SSgA Target Retirement 2030 SL Series Fund- Class A	N/A	C	31-Mar-05	Dan Farley	Since inception	\$546.23	0.180	0.00	0.08	N/A
Target-Date Lifecycle	SSgA Target Retirement 2040 SL Series Fund- Class A	N/A	C	31-Mar-05	Dan Farley	Since inception	\$195.25	0.200	0.00	0.08	N/A

\*M = mutual fund, C = commingled fund, SA = separate account. \*\*Minimum investment, fee waivers/rebates, etc.

\*\*Stable value portfolio returns are presented net of benefit responsive charges which are 6 basis points for the wrap contracts. These charges are in addition to the fees listed above.

# TERMS AND CONDITIONS

CONTRACT NO. 071B7200333



**Exhibit II – Tier 1 Quarterly Returns** For each investment vehicle, provide the quarterly rates of return net of fees. Please use additional page for your proposed lifecycle funds. Directions: Provide to 2 decimal places. Return information must be provided on a net of fees basis. Please ensure that the quarterly returns provided for the Stable Value Fund are de-annualized.

Quarter	SSgA Yield Enhanced Short Term Investment Fund	SSgA Stable Value Fund	SSgA Passive Bond Market Index SL Series Fund - Class L	SSgA S&P 500 Flagship SL Series Fund - Class C	SSgA S&P MidCap Index SL Series Fund - Class C	SSgA Russell 2000 Index NL Series Fund - Class C	SSgA Conservative Strategic Balanced SL Fund	SSgA Moderate Strategic Balanced SL Fund	SSgA Aggressive Strategic Balanced SL Fund	SSgA Target Retirement Income SL Series Fund - Class A	SSgA Target Retirement 2010 SL Series Fund - Class A	SSgA Target Retirement 2020 SL Series Fund - Class A	SSgA Target Retirement 2030 SL Series Fund - Class A	SSgA Target Retirement 2040 SL Series Fund - Class A
03/31/97	1.35%	N/A	-0.59%	2.64%	-1.50%	-5.21%	-0.33%	0.08%	0.49%	N/A	N/A	N/A	N/A	N/A
06/30/97	1.40%	N/A	3.67%	17.49%	14.64%	17.37%	6.70%	10.50%	14.38%	N/A	N/A	N/A	N/A	N/A
09/30/97	1.43%	1.64%	3.35%	7.47%	15.91%	14.69%	4.36%	5.57%	6.74%	N/A	N/A	N/A	N/A	N/A
12/31/97	1.43%	1.59%	2.93%	2.83%	0.79%	-3.41%	2.19%	1.44%	0.66%	N/A	N/A	N/A	N/A	N/A
03/31/98	1.41%	1.55%	1.51%	13.94%	11.08%	9.99%	4.40%	7.96%	11.57%	N/A	N/A	N/A	N/A	N/A
06/30/98	1.41%	1.57%	2.39%	3.26%	-2.11%	-5.32%	2.22%	2.09%	1.95%	N/A	N/A	N/A	N/A	N/A
09/30/98	1.43%	1.57%	4.30%	-10.00%	-14.57%	-20.11%	0.20%	-4.63%	-9.49%	N/A	N/A	N/A	N/A	N/A
12/31/98	1.37%	1.55%	0.30%	21.32%	27.82%	16.05%	5.35%	11.62%	18.14%	N/A	N/A	N/A	N/A	N/A
03/31/99	1.27%	1.48%	-0.45%	4.83%	-6.43%	-5.72%	0.32%	1.37%	2.41%	0.43%	0.20%	0.59%	0.82%	0.87%
06/30/99	1.25%	1.49%	-1.07%	7.01%	13.89%	15.12%	1.07%	3.65%	6.24%	1.74%	3.16%	4.77%	6.06%	6.53%
09/30/99	1.32%	1.50%	0.73%	-6.24%	-8.39%	-6.48%	-0.53%	-2.14%	-3.72%	-0.81%	-2.45%	-3.05%	-3.33%	-3.38%
12/31/99	1.39%	1.57%	-0.16%	14.79%	17.25%	18.53%	4.11%	9.27%	14.59%	4.03%	7.94%	11.20%	13.52%	14.34%
03/31/00	1.46%	1.49%	2.21%	2.23%	12.79%	6.72%	2.54%	3.14%	3.53%	3.46%	4.50%	4.23%	3.96%	3.83%
06/30/00	1.56%	1.50%	1.75%	-2.65%	-3.22%	-3.97%	0.25%	-1.24%	-2.78%	0.33%	-1.00%	-1.92%	-2.49%	-2.72%
09/30/00	1.67%	1.52%	2.96%	-0.98%	12.02%	1.07%	1.87%	0.55%	-0.78%	1.38%	0.58%	-0.30%	-0.82%	-1.01%
12/31/00	1.67%	1.52%	4.24%	-7.80%	-3.71%	-6.85%	0.97%	-2.84%	-6.61%	0.98%	-0.64%	-2.62%	-4.01%	-4.57%
03/31/01	1.51%	1.48%	2.97%	-11.89%	-10.77%	-6.60%	-1.15%	-5.94%	-10.68%	-1.83%	-5.29%	-8.11%	-9.74%	-10.50%
06/30/01	1.20%	1.46%	0.54%	5.87%	13.24%	13.95%	1.92%	3.55%	5.14%	1.70%	2.46%	3.59%	4.53%	5.01%
09/30/01	0.99%	1.50%	4.61%	-14.70%	-16.61%	-20.91%	-0.81%	-6.99%	-12.94%	-1.74%	-5.31%	-9.30%	-12.00%	-13.32%
12/31/01	0.73%	1.51%	0.04%	10.67%	17.96%	20.75%	2.84%	6.24%	9.66%	2.65%	4.94%	7.40%	9.20%	10.10%
03/31/02	0.57%	1.36%	0.10%	0.28%	6.73%	3.86%	0.30%	0.50%	0.64%	0.08%	0.01%	0.47%	0.88%	1.19%
06/30/02	0.55%	1.36%	3.71%	-13.43%	-9.31%	-8.33%	-0.08%	-4.59%	-9.03%	-1.11%	-2.99%	-5.42%	-6.99%	-7.76%
09/30/02	0.51%	1.35%	4.65%	-17.25%	-16.57%	-21.51%	-1.27%	-8.09%	-14.66%	-1.45%	-4.53%	-9.91%	-13.56%	-15.63%
12/30/02	0.43%	1.35%	1.58%	8.41%	5.77%	6.16%	3.10%	4.92%	6.64%	2.24%	3.93%	5.47%	6.33%	6.73%
03/31/03	0.35%	1.24%	1.42%	-3.15%	-4.47%	-4.59%	-0.03%	-1.69%	-3.33%	-0.34%	-1.22%	-2.70%	-3.62%	-4.25%
06/30/03	0.33%	1.19%	2.49%	15.40%	17.58%	22.44%	6.04%	10.32%	14.71%	5.56%	9.35%	12.89%	15.03%	16.22%
09/30/03	0.28%	1.14%	-0.19%	2.63%	6.55%	9.01%	1.00%	2.35%	3.66%	0.61%	1.03%	2.56%	3.70%	4.52%
12/31/03	0.28%	1.14%	0.28%	12.15%	13.15%	14.43%	3.46%	7.31%	11.22%	3.06%	5.39%	8.75%	10.94%	12.30%
03/31/04	0.27%	1.11%	2.63%	1.68%	5.04%	6.18%	2.69%	2.72%	2.74%	2.15%	3.21%	3.45%	3.49%	3.46%
06/30/04	0.27%	1.08%	-2.49%	1.71%	0.92%	0.47%	-1.59%	-0.50%	0.60%	-0.79%	-1.43%	-0.73%	-0.08%	0.45%
09/30/04	0.36%	1.12%	3.17%	-1.87%	-2.10%	-2.90%	1.98%	0.56%	-0.91%	1.40%	1.82%	0.78%	-0.09%	-0.78%
12/31/04	0.48%	1.14%	0.91%	9.24%	12.09%	13.97%	3.46%	6.47%	9.49%	3.25%	5.13%	7.84%	9.52%	10.66%
03/31/05	0.61%	1.14%	-0.51%	-2.14%	-0.42%	-5.40%	-0.88%	-1.33%	-1.80%	0.06%	-0.36%	-0.88%	-1.29%	-1.52%
06/30/05	0.74%	1.16%	2.98%	1.35%	4.33%	4.21%	2.66%	2.29%	1.86%	2.51%	3.74%	3.16%	2.58%	1.99%
09/30/05	0.88%	1.16%	-0.68%	3.61%	4.82%	4.60%	0.79%	2.50%	4.18%	0.87%	0.91%	2.68%	3.84%	4.84%
12/31/05	1.00%	1.16%	0.57%	2.07%	3.32%	1.04%	1.05%	1.63%	2.18%	1.27%	1.55%	2.04%	2.28%	2.49%
03/31/06	1.11%	1.11%	-0.66%	4.20%	7.63%	13.97%	1.05%	3.03%	5.02%	1.08%	1.08%	2.89%	4.50%	5.86%
06/30/06	1.22%	1.17%	-0.09%	-1.44%	-3.22%	-5.43%	-0.44%	-0.83%	-1.23%	-0.02%	-0.69%	-1.17%	-1.38%	-1.46%
09/30/06	1.32%	1.19%	3.78%	5.66%	-1.08%	0.37%	3.88%	4.07%	4.24%	3.48%	4.54%	4.79%	4.58%	4.13%



### Exhibit III – Tier 1 Calendar Year Returns

For each investment vehicle, provide the annual rates of return by year.  
(see Calendar Year Returns below)

Directions: Provide to 2 decimal places. Return information must be provided on a net of fees basis.

Fund Category	Recommended Fund	Annual Rates of Return (%)									
		1997	1998	1999	2000	2001	2002	2003	2004	2005	YTD 09/30/06
Money Market	SSgA Yield Enhanced Short Term Investment Fund	N/A	5.75%	5.34%	6.53%	4.50%	2.06%	1.23%	1.37%	3.26%	3.69%
Stable Value	SSgA Stable Value Fund	N/A	6.39%	6.17%	6.18%	6.07%	5.53%	4.79%	4.53%	4.70%	3.51%
Core Bond	SSgA Passive Bond Market Index SL Series Fund - Class L	N/A	8.74%	-0.95%	11.62%	8.35%	10.37%	4.03%	4.18%	2.34%	3.00%
S&P 500 Index	SSgA S&P 500 Flagship SL Series Fund - Class C	N/A	28.47%	20.73%	-9.14%	-11.95%	-22.13%	28.64%	10.85%	4.89%	8.51%
Mid Cap Index	SSgA S&P MidCap Index SL Series Fund - Class C	N/A	18.75%	14.48%	17.75%	-0.61%	-14.59%	35.43%	16.33%	12.52%	3.04%
Small Cap Index	SSgA Russell 2000 Index NL Series Fund - Class C	N/A	-3.45%	20.31%	-3.52%	1.65%	-20.67%	45.72%	18.05%	4.19%	8.18%
Risk-Based Lifestyle	SSgA Conservative Strategic Balanced SL Fund	N/A	12.64%	5.01%	5.74%	2.77%	2.02%	10.77%	6.62%	3.64%	4.51%
Risk-Based Lifestyle	SSgA Moderate Strategic Balanced SL Fund	N/A	17.34%	12.36%	-0.48%	-3.75%	-7.53%	19.12%	9.43%	5.13%	6.34%
Risk-Based Lifestyle	SSgA Aggressive Strategic Balanced SL Fund	N/A	21.64%	20.03%	-6.73%	-10.34%	-16.68%	27.85%	12.14%	6.49%	8.12%
Target-Date Lifecycle	SSgA Target Retirement Income SL Series Fund-Class A	N/A	N/A	5.44%	6.26%	0.70%	-0.28%	9.08%	6.11%	4.78%	4.58%
Target-Date Lifecycle	SSgA Target Retirement 2010 SL Series Fund-Class A	N/A	N/A	8.84%	3.38%	-3.57%	-3.74%	15.01%	8.91%	5.92%	4.93%
Target-Date Lifecycle	SSgA Target Retirement 2020 SL Series Fund-Class A	N/A	N/A	13.63%	-0.75%	-7.28%	-9.71%	22.51%	11.61%	7.13%	6.56%
Target-Date Lifecycle	SSgA Target Retirement 2030 SL Series Fund-Class A	N/A	N/A	17.34%	-3.48%	-9.34%	-13.76%	27.54%	13.14%	7.53%	7.79%
Target-Date Lifecycle	SSgA Target Retirement 2040 SL Series Fund-Class A	N/A	N/A	18.71%	-4.60%	-10.30%	-15.95%	30.62%	14.10%	7.93%	8.63%

*\*If your firm is recommending to create lifecycle funds based on the core options, please provide your suggested allocation and include returns based on your recommended mix.*




**Exhibit IV – Tier 1  
Annualized Returns**

For each investment vehicle, provide the annualized return and annualized standard deviation for the 3, 5, 7 and 10 year periods ending on September 30, 2006. (See Annualized Report Below) Directions: Provide to 2 decimal places. Return information must be provided on a net of fees basis.

		<b>Periods Ended September 30, 2006</b>							
		<b><u>3 Years</u></b>		<b><u>5 Years</u></b>		<b><u>7 Years</u></b>		<b><u>10 Years</u></b>	
<b>Fund Category</b>	<b>Recommended Fund</b>	<b>Annualized Return</b>	<b>Annualized Standard Deviation</b>	<b>Annualized Return</b>	<b>Annualized Standard Deviation</b>	<b>Annualized Return</b>	<b>Annualized Standard Deviation</b>	<b>Annualized Return</b>	<b>Annualized Standard Deviation</b>
Money Market	SSgA Yield Enhanced Short Term Investment Fund	2.86	0.44	2.46	0.38	3.42	0.55	4.07	0.54
Stable Value	SSgA Stable Value Fund	4.64	0.05	4.92	0.14	5.27	0.20	N/A	N/A
Core Bond	SSgA Passive Bond Market Index SL Series Fund - Class L	3.27	3.28	4.75	4.00	6.19	3.72	N/A	N/A
S&P 500 Index	SSgA S&P 500 Flagship SL Series Fund - Class C	12.27	7.72	6.94	12.74	2.15	14.62	8.50	15.51
Mid Cap Index	SSgA S&P MidCap Index SL Series Fund - Class C	15.13	10.83	12.97	13.78	11.49	16.11	13.25	17.43
Small Cap Index	SSgA Russell 2000 Index NL Series Fund - Class C	15.04	14.37	13.18	17.49	8.66	20.16	8.54	20.03
Risk-Based Lifestyle	SSgA Conservative Strategic Balanced SL Fund	6.11	3.18	6.06	3.66	5.72	4.14	7.04	4.50
Risk-Based Lifestyle	SSgA Moderate Strategic Balanced SL Fund	9.50	4.81	7.44	6.69	5.04	7.95	7.77	8.42
Risk-Based Lifestyle	SSgA Aggressive Strategic Balanced SL Fund	12.82	7.15	8.57	10.67	4.02	12.53	8.19	12.99
Target-Date Lifecycle	SSgA Target Retirement Income SL Series Fund-Class A	6.22	2.56	5.36	3.26	5.01	3.65	N/A	N/A
Target-Date Lifecycle	SSgA Target Retirement 2010 SL Series Fund-Class A	8.45	4.16	7.06	5.69	5.37	6.82	N/A	N/A
Target-Date Lifecycle	SSgA Target Retirement 2020 SL Series Fund-Class A	11.49	5.65	8.65	8.16	5.37	9.65	N/A	N/A
Target-Date Lifecycle	SSgA Target Retirement 2030 SL Series Fund-Class A	13.31	6.88	9.51	10.05	5.27	11.65	N/A	N/A
Target-Date Lifecycle	SSgA Target Retirement 2040 SL Series Fund-Class A	14.53	7.85	10.09	11.25	5.32	12.77	N/A	N/A

*\*If your firm is recommending to create lifecycle funds based on the core options, please provide your suggested allocation and include returns based on your recommended mix.*

**Exhibit V - Tier 1**

For each investment vehicle, please provide the expense ratio on the table below for each fund category as well as the estimated investment management fees based on the Plan assets.

**Investment Management Fees**

State of Michigan 401(k) and 457 Plans						
	Assets as of September 30, 2006*					
Fund Category	401(k)	457	Total Assets	% of Assets	Expense Ratio (%)	Investment Management Fees (\$)
Money Market	153,831,395	14,548,704	168,380,100	7.6%	0.110%	\$ 185,218.11
Stable Value**	396,177,774	921,054,242	1,317,232,016	59.2%	0.120%	\$ 1,580,678.42
Core Bond Index	50,801,035	22,090,855	72,891,889	3.3%	0.130%	\$ 94,759.46
S&P 500 Index	190,983,567	126,905,485	317,889,052	14.3%	0.055%	\$ 174,838.98
Mid Cap Index	122,034,307	67,020,629	189,054,936	8.5%	0.120%	\$ 226,865.92
Small Cap Index	45,003,809	26,171,123	71,174,932	3.2%	0.240%	\$ 170,819.84
Conservative Asset Allocation	10,348,837	8,760,129	19,108,966	0.9%	0.190%	\$ 36,307.04
Moderate Asset Allocation	20,839,800	13,616,339	34,456,139	1.5%	0.180%	\$ 62,021.05
Aggressive Asset Allocation	23,816,710	9,589,493	33,406,203	1.5%	0.180%	\$ 60,131.17
<b>Total Tier 1</b>	<b>\$1,013,837,234</b>	<b>\$1,209,756,999</b>	<b>\$2,223,594,233</b>	<b>100.0%</b>		<b>\$ 2,591,639.97</b>

\*Assets available for transfer to the new TPA.



## Exhibit VI – Tier 2 Fund Characteristics

The State is looking to retain the current investment vehicles in Tier 2 as listed below. However, the State would like the TPA to consider offering the lowest cost share class available for these investment options. Please provide the share class you are offering to the State.

Current Fund	Current Share Class	Current Ticker Symbol	Proposed Share Class	Ticker Symbol	Expense Ratio (%)	12b-1 Fees (%)	Revenue Sharing (%) (Include 12b-1)
Western Asset Core Bond	FI	WAPIX	FI	WAPIX	0.70	0.25	0.300
MFS Total Return	A	MSFRX	A	MSFRX	0.91	0.35	0.350
Dodge and Cox Stock*	NA	DODGX	NA	DODGX	0.52	0.00	0.100
Legg Mason Large Cap Growth	I	SBLYX	I	SBLYX	0.73	0.00	0.425
Lord Abbett Mid Cap Value*	A	LAVLX	A	LAVLX	1.02	0.30	0.400
Artisan Mid Cap*	Investor	ARTMX	Investors	ARTMX	1.18	0.00	0.350
STI Classic Small Cap Value*	I	SCETX	I	SCETX	1.20	0.00	0.400
Columbia Acorn	Z	ACRNX	Z	ACRNX	0.75	0.00	0.350
American EuroPacific Growth	A	AEPGX	A	AEPGX	0.81	0.25	0.250
Templeton Foreign	A	TEMTX	A	TEMTX	1.16	0.25	0.400
SSgA Emerging Markets	NA	SSEMXX	NA	SSEMXX	1.25	0.11	0.475

\*Funds closed to new investors.



- B. Implement investment restrictions and redemption fees as directed by investment fund managers and report results monthly to the State. Comply with Securities Exchange Commission Rule 22c-2 adopted March 3, 2005.

**Contractor Response to Task X-B:**

CitiStreet can monitor short-term trading over a broad range of frequencies, including daily, weekly, monthly, quarterly and other specific intervals. In addition, we can support trading restrictions to limit the number of transactions a participant can make within various pre-determined periods of time, both at the plan and fund levels.

We are also currently administering redemption fees for a number of customers, including accounting for fees on both mutual funds and commingled pools. Further, based on possible changes in industry standards, we will be prepared to implement the appropriate procedures to ensure compliance.

- C. Implement Michigan Market Timing Policy and provide monthly reports of results to the State. The Market Timing Policy can be found on the website at <http://stateofmi.csplans.com>.
- (1) Describe your ability to implement the State's Market Timing policy.
  - (2) Has the firm been subpoenaed by federal or state regulators with regard to the firm's trading practices? If yes, by whom and when?
  - (3) Has the firm been fined by federal or state regulators or been required to pay a settlement(s) regarding market-timing and/or after-hours trading? If yes, explain and provide the fine and settlement amount(s).
  - (4) If your firm has been fined by federal or state regulators, what was done to ensure that market-timing and/or after-hours trading does not occur in the future?
  - (5) Has the firm conducted an internal review to determine if excessive market timing and/or after-hours trading have occurred in the funds? If yes, what was the outcome of the internal review?
  - (6) What are the firm's guidelines regarding excessive trading, short-term trading, or market timing? Are there different guidelines for the various classes of shares of the mutual funds the firm offers? What language is contained in the prospectus regarding excessive trading, short-term trading, and market timing? How do you communicate this to the plan sponsor and the participants?

**Contractor Response to Task X-C:**

(1) On an individual basis, we are working with our clients, through meetings, teleconferences and correspondence, to address potential market-timing issues in their plans' investment funds and the impact on their plans. In our capacity as a recordkeeper, we support and work with clients to identify plan participants who may be market timing and to implement trading restrictions on plan investment options as requested. We have also proactively generated plan level reports to help clients understand the trading activity in their plans, and shared potential strategies for trading restrictions or redemption fees for consideration.

(2) As part of the SEC's on-going investigation of mutual fund trading, CitiStreet, along with many other financial institutions, had been subpoenaed for certain information and records related to mutual fund trading. CitiStreet has not been charged in any regulatory investigations.

In the Fall of 2003, the SEC sent out letters to all firms that utilize National Securities Clearing Corporation's (NSCC) Fund/Serv system for the transmission of trade orders to mutual funds. They requested a voluntary review of systems and controls to ensure compliance with the 4 p.m. ET trade deadline. CitiStreet uses the Fund/Serv system for the processing of trades for some of the markets we serve and, accordingly, we received the standard letter, and we responded to the SEC request to confirm our compliance.



In the normal course of its business, CitiStreet receives subpoenas and voluntary requests for information from the SEC and other governmental authorities. It is generally our policy to cooperate fully with such requests for information. To its knowledge, CitiStreet is not now nor has it been a target of any governmental investigations, and it has not been fined or otherwise sanctioned by any government agency.

(3) No.

(4) N/A

(5) CitiStreet serves as a recordkeeper for defined contribution plans, and is not a registered fund company or money manager. We do, however, offer mutual funds and other investments through our affiliate organizations, Citigroup and State Street Corporation, as well as through many external investment managers.

On behalf of our customers, we have proactively generated plan level reports to help them understand the trading activity in their plans, and shared potential strategies for trading restrictions or redemption fees for consideration.

(6) On an individual basis, we are working with our clients, through meetings, teleconferences and correspondence, to address potential market-timing issues in their plans' investment funds and the impact on their plans. In our capacity as a recordkeeper, we support and work with clients to identify plan participants who may be market timing and to implement trading restrictions on plan investment options as requested. We have also proactively generated plan level reports to help clients understand the trading activity in their plans, and shared potential strategies for trading restrictions or redemption fees for consideration.

As you are aware, all mutual fund trades, by law, must be placed before 4:00 p.m. ET in order to receive the current day's price for a transaction. CitiStreet's recordkeeping systems are automated to only accept transactions that are completed before 4 p.m. ET for processing at that night's price.

CitiStreet serves as a recordkeeper for defined contribution plans, and is not a registered fund company or a money manager. Therefore, we do not govern the content of mutual fund prospectuses.

D. Implement changes in investment options with 90-day notice from the State.

**Contractor Response to Task X-D:**

We understand and agree to this requirement.

E. Contract with Investment Managers

**Contractor Response to Task X-E:**

We understand and agree to this requirement.

F. Contract with Separately Managed Account (SMA) Provider

**Contractor Response to Task X-F:**

We understand and agree to this requirement.

XI. Support services to Michigan staff:

- A. TPA will provide legislative updates, regulatory updates, industry trends and analysis, technology enhancements, etc.
- B. TPA will provide ad-hoc reports as required by the State
- C. TPA will need to provide timely and accurate information for any Plan audits



### Contractor Response to Task XI-A through XI-C:

A. CitiStreet provides you with timely updates on legislative and regulatory matters through three different channels:

- We publish a quarterly legislative update called **Learn**, which we provide online as part of our quarterly Sponsor Forum newsletter, and Special Alert Bulletins for time sensitive industry issues, such as tax law changes. Our most recent Sponsor Forum newsletter can be found online at [www.e-sponsorforum.com/govt](http://www.e-sponsorforum.com/govt).
- Your dedicated administrative team contacts you proactively to discuss the impact of proposed regulatory changes and any potential implications for your plan's participants, such as sensitive industry issues.
- Legislative and regulatory updates can be found at CitiStreet's Internet site [www.CitiStreetonline.com](http://www.CitiStreetonline.com), under the topic News /Legislation Updates. Our most recent update, **CitiStreet e-lets** - our new monthly online legislative publications, can be found at [www.CitiStreetgovtelert.com](http://www.CitiStreetgovtelert.com). These publications will provide our plan sponsors with timely updates on regulatory and legislative issues pertaining to the pension and employee benefit services industries.

We also utilize quarterly service reviews as an opportunity to inform and discuss proposed regulatory and/or legislative changes and their potential impacts on your plan and participants.

B. Most adhoc reports are available through our Sponsor Connect<sup>SM</sup> tool, Report Writer. They are available the same day that the information is requested. If there is a special request, the Plan Administration team can work with the State of Michigan to either develop a unique adhoc report on Sponsor Connect<sup>SM</sup> or run a separate report outside of Sponsor Connect<sup>SM</sup>. Reports outside of Sponsor Connect<sup>SM</sup> usually take 1 –2 days depending on the nature of the request.

C. The CitiStreet Legal Department is the primary contact for DOL inquiries. In the case of information requests from interested third parties, such as actuaries, auditors and attorneys for an account, the Unit Manager or officer is considered the primary contact and provides any required assistance. Account information is considered confidential and is not to be released until the plan sponsor or plan administrator has been notified and has authorized the release of the requested information.

## XII. Transition Responsibilities Upon Termination

Upon termination or expiration of the agreement, the TPA shall cooperate with the State and the successor TPA to ensure the successful transfer of administrative responsibilities, participant records, historical files, (including participant files from the prior TPA, hardcopy records including imaged, microfiche, or other format that was utilized for record retention purposes) and trustee/custodial records in a format that is deemed acceptable by all parties; to the State, its representatives, or successor organization. Such items include, but are not limited to, the following:

- Participant files including all historical data, transactional level detail that took place during the term of the agreement as well as the historical data received from the prior TPA
- Participant demographic data including categorization required for compliance with processing and regulatory requirements
- All data residing in all operating systems, including but not limited to, participant level notes/comments
- All applicable tax documents and participant level withholding data that is deemed by the State to be appropriate
- Custodial assets and records for all accounts
- All data and records related to the brokerage option including asset positions, account numbers, and other data fields required by the successor provider to ensure a smooth transfer and/or re-title of accounts/assets
- Details of any sub-contracted procedures or third party agreements

Additionally the TPA shall provide the following reports in a timely fashion, no later than 60 days after the expiration or termination of the contract.

Financial recordkeeping reports – current month to date of termination and calendar year to date at the plan level detailing activity by each investment provider, including the aggregate balance of the brokerage account.

Transactional details shall consist of deposits, exchanges in and out, distributions, fees, earnings, transfers in and out and adjustments. Staff shall be available to answer questions and provide technical assistance during the transition period and up to six (6) months afterwards as needed to complete the audit report.



1. Reconciliation Reports
  - a. Recordkeeping to Trust – reconciling cumulative asset balances transferred by fund by plan as reported on the recordkeeping system to the assets balances transferred as reported on the Trustee system, including the cumulative Brokerage Account balance by plan.
  - b. Trust to Carrier – reconciling the investment fund asset values transferred from the Custodian to the successor Custodian to the asset values of record reported by the investment providers, including the cumulative Brokerage Account balance by plan.
  - c. Brokerage Account – a full reconciliation on a participant level of asset positions on record as reported by the brokerage account provider by plan to the asset positions transferred to the successor brokerage account provider.
2. Financial report of the Custodial accounts, including the latest activity and final market values, and fully reconciled with actual assets held in the accounts.
3. Financial report and a full reconciliation of all accounts held in name, or on behalf of the State plans.
4. Aged Report of Outstanding Accounts Receivables identifying all account receivables that remain outstanding. Report to document all collection efforts made and the status of each item.
5. Plan Level Reports of Stale Dated Checks identifying participant's name and SSN on all distribution checks issued that have become stale dated/no longer negotiable (including check number, net amount of check, and date of issuance) during the contract period.
6. Report of Outstanding Adjustments identifying all items requiring adjustment or corrections, which have not been completed as of the termination date of the contract.
7. Report of any hardship withdrawal request received but not completed.
8. Report of outstanding loans and delinquent loans and any actions taken on these loans.
9. Report of each Defined Contribution Plan employee's accrued hours of service and conversion tables used to calculate vesting for each Defined Contribution Plan employee.

It is expected that the TPA shall continue to provide services to and work with the State and its representatives to assist in problem resolution and other areas as deemed necessary. The TPA is further expected to fully cooperate with post conversion audit activity conducted by the State or its designee.

Additionally, the TPA shall ensure the availability of staff and records required to provide technical assistance to allow for the timely completion of the annual financial audit of the latest Plan year.

As of a date determined by the State, the TPA shall have no written or telephone contact with participants.

**Contractor Response to Task XI:**

CitiStreet will adhere to the requirements of the State.

**1.104b Work and Deliverables – Self-Directed Brokerage Account Services**

Each plan participant will have the option to set up a Self-Directed Brokerage Account in his or her name. This account will allow purchase of an extensive selection of mutual funds and exchange-traded stocks and bonds. See the Plan web site at <http://stateofmi.csplans.com> for the current Self Directed Brokerage Account information. Currently there are 1,204 brokerage accounts in the 401(k) Plan and 851 brokerage accounts in the 457 Plan. The service will have the following characteristics:

- A. Participants will receive brokerage account information and applications through the TPA.
- B. The brokerage company will be responsible for processing the participant's brokerage account enrollment application and notifying the TPA daily of the accounts opened. The accounts will be identified by participant name and the unique identification number used by the TPA. The broker will assign a unique account number.
- C. The brokerage company will maintain toll-free phone access to a bank of qualified customer service representatives to effect trades and answer questions about the brokerage account services and statements.
- D. The brokerage company will issue quarterly statements (or monthly if there are any transactions to report) mailed to the participant's address of record with the TPA.





- E. The brokerage company will provide all applicable notices, prospectuses, proxies, and corporate action materials relating to any asset held in the Tier III account.
- F. The participant may direct the transfer of contributions from the Tier I or Tier II accounts to the brokerage account on a daily basis, subject to the broker's minimum transfer requirements that must be reinforced by the TPA.
- G. The brokerage company will provide an aggregate daily asset value of each participant's brokerage account to the TPA on a daily basis.
- H. The TPA will be responsible for coordinating the transfer of assets back from the brokerage company and directing the transfer to the plan's other options as directed by the participant.
- I. Any administration fees charged by the TPA for the brokerage account will be charged to the participant's Tier I and Tier II accounts.
- J. The brokerage company will maintain a web site and all participants who open a brokerage account shall have access to their account information through this web site.
- K. During the transition period, the TPA will transfer the self-directed brokerage account assets in-kind.

- (1) Fully describe the Self-Directed Brokerage option features, program design requirements, and all related fees including annual account fees and/or brokerage transaction/commission fees.
- (2) Does your self-directed brokerage account require any minimum balance? Please describe what happens if minimum balances are not maintained.
- (3) Describe the rules for transferring from the core options into the brokerage accounts and vice-versa.
- (4) How are self-directed brokerage account balances treated for purposes of the following:
  - Regular benefit or hardship distributions
  - IRC required and minimum distributions
  - Domestic relations orders
  - Death benefit claims
- (5) During what hours of the day are client service brokerage representatives available to respond to participant trading questions and inquiries?
- (6) What information from the self-directed brokerage account is reflected and reported on the core participant quarterly statement?
- (7) Describe any third parties involved in offering of the self-directed brokerage account services and explain their role.

**Contractor Response to Task 1.104b:**

- (1) There will be a \$50 annual fee charged to participants enrolled in the brokerage window.
- (2) No minimum balance is required.
- (3) State Street does not set the rules for transferring from the core options into the brokerage accounts and vice-versa. Rules, if any, are set by the plan and recordkeeper.
- (4) The SMA will be treated as part of the trust for all of these purposes and processing consistent with the plan document.
- (5) Client service brokerage representatives are available on the days the NYSE is open. Hours of operation are 8:30 AM - 5:30 PM EST. An automated telephone as well as the web site is available 7 days a week, 24 hours a day for account information, quotes, balances, and more.
- (6) The SMA is fully integrated into our recordkeeping process, and we reflect employees' total SMA balance as a separate line item, right on their quarterly plan statements.



A separate monthly brokerage statement is sent to all active SMA accounts and provides a financial summary and listing of positions in the specific account, divided by categories such as equity, mutual funds, fixed income and cash holdings. If you have an inactive account, statements will be mailed quarterly.

Your employees also receive printed information on their brokerage activity. We mail confirmation statements after each transaction, on the business day following the trade day.

(7) Third parties are not involved in offering of the self-directed brokerage account. The self-directed brokerage account is offered by the partnership of State Street Global Markets, LLC and CitiStreet.

### 1.104c Work and Deliverables – Management of Stable Value Funds

Management of Stable Value Funds – The Stable Value funds are currently managed separately for each Plan. The TPA must manage the funds to allow for daily valuation and transactions, with appropriate trading restrictions allowed. (See Exhibit D)

The 457 Plan's Stable Value Fund had a market value of \$934,322,616 as of 12/31/05 and a market value of \$953,887,915 as of 12/31/04. For 2005 the net cash flow was –\$63,324.45. Cash flows at least in the near future will continue to be negative as more people retire and new employees contribute primarily to the 401(k) plan.

The 401(k) Plan's Stable Value Fund had a market value of \$363,745,738 as of 12/31/05 and a market value of \$331,116,854 as of 12/31/04. For 2005 the net cash flow was \$16,780.61. Cash flows in the foreseeable future will continue to be positive since new employees will have employer and employee contributions primarily going into this plan.

- (1) Stable Value Fund: The State currently has two (2) Stable Value Funds, one for the 401(k) Plan and one for the 457 Plan, with slightly different crediting interest rates. Will you be able to consolidate the two (2) crediting rates and get the same rate for both Plans? The Stable Value Funds are separate accounts owned by the State. Please describe how you would manage these two Funds. At the time of transition, the fund's securities will be transferred in-kind to the new TPA. The following is detailed information regarding the two products as of June 30, 2006:

	401(k) Plan	457 Plan
<b>Portfolio Analytics</b>		
Gross Crediting Rate	4.90%	4.91%
Duration	2.95	3.07
Average Credit Quality	AAA	AAA
Average Score	2.13	2.16
<b>Sector Distributions</b>		
Internally Managed Portfolios	35.8%	41.0%
Agency Mortgage-CMOs	20.5%	17.4%
Insurance	14.4%	14.7%
Commercial MBS	12.0%	12.6%
Agency Mortgage-ARMs	0.0	7.4%
ABS-Home Equity Loans	6.2%	0.0%
Non-Agency Mortgage-CMOs	4.5%	0.0%
Cash Equivalent	3.3%	3.0%
ABS-Autos	2.3%	2.5%
ABS-Home Equity Loans	0.0%	1.0%
ABS-Auto Owner Trust	1.0%	0.5%
<b>Distribution by Contract Type</b>		
Global Wrapped Synthetic	78.6%	80.4%
Traditional GICs	14.4%	14.7%
Single Security Synthetic	3.8%	1.9%
Cash	3.3%	3.0%



Distribution by Credit Quality Rating		
A	0.6%	3.9%
A-1+	3.3%	3.0%
AA	11.9%	9.7%
AA-	1.9%	0.0%
AA+	18.1%	18.5%
AAA	64.2%	64.9%

- (2) If you are offering a separate account Stable Value fund with guaranteed interest, describe the current and minimum interest rate guarantees, how interest is credited, and the frequency of rate changes. Provide the structure of the portfolio by sector and maturity distribution.
- (3) For declared rate funds, how often do you declare a new rate? Does old money receive the same rate as new money? If not, please describe.
- (4) For the proposed Stable Value Fund, provide the average quality, average maturity, duration, liquidity percentage and yield to maturity. Furthermore, provide the make-up of the underlying portfolio including asset type, grade and percentage breakdown as well as other fixed income portfolio characteristics as of September 30, 2006.
- (5) Does the proposed Stable Value Fund have a minimum contract rate guaranteed for the life of the contract? If so, please indicate.
- (6) What is the current interest rate for your proposed Stable Value Fund?
- (7) Provide a detailed description regarding participant level transfer/withdrawal restrictions.

#### Contractor Response to Task 104c:

(1) Yes, we are able to combine the two accounts and both will earn the same crediting rate. The impact on the crediting rate between the two funds is de minimus based on the 3/31/07 information, +/-0.01%.

The transition will be accomplished by combining the global wraps, transferring the book value balance and the underlying assets so that no gain or loss will be realized by the participants. The wrap providers for both funds are the same and are amenable to the change. Remaining individual securities and wraps will also be combined in the global wrap in a similar manner, transferring book value balances and underlying securities to the global wrap.

The insurance contracts may be combined as well. There are three remaining LIFO contracts that will sit behind the global wrap in the withdrawal hierarchy (as they are today); all others are net pro rata contracts and will be transferred to the combined portfolio.

The fund will be managed going forward according to the same investment guidelines. If approved by the State, we request one modification to the investment guidelines: currently, the State of Michigan stable value portfolios are managed to a duration range of 1.5 – 3.0 years. We recommend broadening that range to 1.5 - 4 years, while continuing the long term duration target of 3 years.

(2) Yes the rate is guaranteed by the insurance contracts, wraps, and underlying assets. The minimum contract rate guarantee is zero. For synthetic contracts, the crediting rate will not fall below zero. Interest is credited daily and crediting rates are reset monthly and quarterly.



Sector Breakdown	
Treasury/Agency	0.00%
Corporate	0.00%
Mortgage Related (includes CMBS)	29.82%
Asset Backed	14.00%
Foreign	0.00%
Cash	3.82%
Other: Broken Down Below	0.00%
Internally Managed Funds	40.73%
Insurance	11.63%
	100.00%

Maturity Breakdown	
0-1 years	14.01%
1-2 years	15.23%
2-3 years	14.56%
3-4 years	8.27%
4-5 years	5.38%
	57.45%

(3) The crediting rate is a daily rate. All money, new or old, receives the rate in effect at that time. For example, if \$100 is deposited on January 1st, it grows at the rate in effect on January 1st, then receives the rate for January 2nd, and so on.

(4) Please see below for characteristic information relating to the proposed Stable Value Fund as of 9/30/06.

Average Maturity	3.74
Duration	2.86
Average Credit Quality	AA+
Average Coupon*	5.06
Yield to Maturity	5.30
Liquidity Percentage	3.58

\*Crediting rate

Sector Breakdown	
Treasury/Agency*	0.00%
Corporate*	0.00%
Mortgage Related (includes CMBS)	29.59%
Asset Backed	8.65%
Foreign	0.00%
Cash	3.58%
Other: Broken Down Below	0.00%
Internally Managed Funds	44.63%
Insurance	13.55%
	100.00%

\*Included in Internally Managed Funds



Extended Sector Breakdown	
Internally Managed Portfolios	44.63%
Insurance	13.55%
Commercial Mortgage Backed Securities	10.13%
Agency Mortgage ARM's	1.87%
Agency Mortgage CMO's	17.59%
ABS-Autos	0.54%
ABS-Home Equity Loans	1.97%
Non Agency Mortgage ARM's	4.86%
Non Agency Mortgage-CMO's	1.29%
Cash Equivalent	3.58%
	100.00%

Distribution by Contract Type	
Traditional GICs	13.55%
Global Wrap Synthetic	80.54%
Single Security Synthetic	2.33%
Cash Position	3.58%
	100.00%

Quality Breakdown	
AAA	41.83%
AA	56.25%
A	1.92%
BBB	0%
BB	0%
B	0%
	100%

(5) Yes, the minimum contract rate guarantee is zero. For synthetic contracts, the crediting rate will not fall below zero. Interest is credited daily and crediting rates are reset monthly and quarterly.

(6) The current crediting rate for the proposed product is 4.96%, net of average wrap fees of 0.060% and investment management and custody fees of 0.120% based on total net assets.

(7) For a Stable Value Fund, typically the participants are able to make transfers or withdrawals on a daily basis at book value without incurring any penalties, fees, or market value adjustments.

However, participant withdrawals may not be honored at book value if the funds being withdrawn will be transferred to a competing plan investment option. A participant may only invest Stable Value assets in a competing investment option by first transferring assets from the Stable Value Fund to a non-competing investment and the assets must remain in the non-competing investment option for a period of three months.

The State of Michigan has two investment options that may be considered competing, the SSgA Yield Enhanced STIF and the Self Managed Account. We will be able to waive the equity wash for the Self Managed Account for the reason that it has a small balance relative to each plan. We do reserve the right to review this in the future. The equity wash to the SSgA Yield Enhanced STIF is not likely to be waived given that it is a relatively larger balance in the 401(k) plan of approximately 6% of plan assets versus the 457 plan at less than 1% of plan assets. The 401(k) plan is also more likely to grow than the 457 plan.

**1.104d Work and Deliverables – Investment Fund Selection and Performance Measurement and Analytics**

A copy of the current Investment Policy Statement for the 401(k) and 457 Plans is Exhibit E.

Regular quarterly investment fund analytic reports will be prepared as of each calendar quarter. These reports must be received by the state of Michigan no later than five (5) weeks after quarter-end and will be presented by the TPA at the 401(k) and 457 Plans Investment Committee meetings.

Each report will include the following for the 20 plus investment funds:

1. Plan Overview – Investment lineup with market value and percent of total for each fund in each plan.
2. Financial Markets Overview
3. Executive Summary – Details of investment performance or other factors that may contribute to the fund being put on the watch list.
4. Performance Summary – Investment returns for each fund, the appropriate market indexes and the appropriate benchmark portfolios for the most recent quarter, year-to-date, one (1), three (3), five (5) and 10 year periods. Return calculations must comply with CFA guidelines.
5. Full analysis of each fund including style analysis based on each fund's holdings and detailed performance for calendar years and cumulative time periods up to 10 years.

Manager Selection studies will be conducted on an "as needed" basis. These studies will screen a universe of managers who are of the size and management style needed and present the top five (5) managers based on five (5) to 10 year performance to the Investment Committee for consideration as a new manager or as a replacement manager.

(1) Fund Selection Criteria:

- a) What criteria do you use to select recommended funds or fund families?
- b) Describe the process you use for, and the frequency of, the periodic review of the funds.
- c) Describe the criteria you use in that review.
- d) Describe the process you use when a fund manager does not meet your expectations.

(2) Fund Performance:

- a) If you or the plan sponsor is not satisfied with the performance of a particular fund, what are the steps needed to make a change?
- b) How long would it take to make such a change?

(3) Fund Suspension or Manager Termination: Describe the administrative, financial, and any other impact on the plan sponsor and the participants when a manager or fund offered to those participants ceases to be offered through your organization.

(4) Research Capabilities: For any funds managed in-house:

- a) Describe your research capabilities, including the number of research professionals you employ.
- b) Indicate to what extent you rely on research information obtained from outside sources. List your sources and volume of business. How do you pay for these services?

(5) Please describe how your recordkeeping system handles short-term fund redemption fees for proprietary and non-proprietary funds.

(6) If your organization has alliances with outside fund families, please provide a list of the specific funds in the program.

**Contractor Response to Task 1.104d:**

(1a) We maintain a list of strong fund candidates in each asset category, however we do not have a platform structure. Clients may choose most any investment vehicle. We enter into trading and revenue sharing relationships with firms that our clients choose.

We have developed a proprietary quantitative ranking system. This is a factor-based model that includes elements such as Annualized Performance, Standard Deviation, Alpha, Sharpe Ratio, and Information ratio. Essentially we seek to identify funds that offer consistent risk-adjusted returns above the benchmark on a net of fees basis. Our models consider 1, 3 and 5-year data, with the 5-year elements having the highest weighting and the 1-year having the lowest weighting. Funds generally must have a minimum 3-year track record. The funds are separated into Morningstar asset categories. Within each asset class the funds are assigned a score and ranked from best to worst. We focus on the top 20% of funds in each asset category.

In addition to the quantitative analysis, we perform qualitative and fundamental analysis to delve deeper into investment composition and behavior. We rely on our knowledge of portfolio behavior, investment-style nuances, and managers' history. Each of the actively-managed funds proposed by CitiStreet is intended for use by participants within an overall asset-allocation strategy; a reasonable level of style consistency is necessary so that investors can rely on the funds to fill their expected diversification roles. Before a fund is considered for inclusion in an investment menu, the fund's style consistency is evaluated via Zephyr Style Advisor and Morningstar.

We also pay careful heed to expense ratio. From a fiduciary perspective, we believe it is prudent to identify and red flag funds whose expenses are higher than their category's average. In addition, we encourage Sponsors to utilize institutional or collective alternatives when appropriate.

In addition to quantitative and fundamental review, we perform due diligence with our investment alliance partners in the form of meetings and conference calls. We may have managers come to our offices in Quincy or we may make on-site visits to discuss specific funds and to gain more insight into environment and culture. We distribute RFI questionnaires to investment managers on a periodic basis (samples of our questionnaire are available). We also receive quarterly commentary from our alliance partners on the majority of the funds in which we have an interest.

Through this disciplined and thorough process, we identify 5 to 10 managers per asset category that we feel might be prudent choices for defined contribution plan sponsors under a wide range of situations. Using the resulting "best of class" list as a base, we identify investments that we feel are appropriate for specific plan situations given each individual plan's population and objectives.

(1b) We understand that each plan sponsor and each plan's participant base is unique, with needs that may be unlike those of other clients. CitiStreet's investment structure and the Investment Services group dedicated to supporting it are designed with this flexibility firmly in mind. Our combination of institutional perspective and institutional pricing with participant awareness is a key CitiStreet strength.

**People and Resources**

CitiStreet's Investment Services group is specifically tasked with providing assistance to Plan Sponsors and Consultants in development of plan investment structure as well as the monitoring and evaluation of underlying investments ongoing. The group consists of 6 Investment Specialists, who are supported by team of 5 Investment Analysts and 3 Management and Technical team members.

CitiStreet's Investment Specialists are investment professionals who have an average of 12 years of industry experience and hold various financial designations and advanced degrees (including CFA, MBA, College for Financial Planning designations, NASD licenses among others).

Jay Young has been assigned as the Investment Specialist for this relationship. He is responsible for servicing CitiStreet's Large Institutional and Governmental Clients.





Jay is a Senior Vice President and Investment Services Manager at CitiStreet. He is responsible for Investment Services for CitiStreet's Large Institutional and Governmental Clients. Jay joined CitiStreet in 1999 to serve as Project Manager for the launch of CitiStreet's Services for Exiting Participants Initiative. Prior to joining CitiStreet, Jay held positions at Nissan North America and American General Finance in the Treasury and Corporate Finance areas.

Jay holds a B.S. in Business Administration, an MBA from Murray State University and an MS in Financial Planning from the College of Financial Planning. He has also earned the Chartered Financial Analyst (CFA), Certified Treasury Professional (CTP), Certified Management Accountant (CMA) and Certified in Financial Management (CFM) designations. He also holds a National Association of Securities Dealers (NASD) Series 7 license.

Jay is a member of the Boston Security Analysts Society, CFA Institute, Association for Financial Professionals and Institute of Management Accountants.

In terms of other human resource, the group's five Investment Analysts assist Investment Specialists in the evaluation of investment managers and the preparation of sponsor reports. In addition, CitiStreet, as one of the largest recordkeepers in the nation, has established relationships with over 120 investment managers. Through our contacts at these companies, we are able to maintain the important flow of information that helps us to assess investments both quantitatively and qualitatively.

In addition, Investment Specialists and Analysts are experts in the use of tools such as Zephyr StyleAdvisor and Morningstar Principia. All have access to subscription news services such as FundFire, Ignites, The Wall Street Journal and Bloomberg.

#### **Our Investment Platform**

CitiStreet maintains relationships with over 120 investment managers, offering more than 2,200 funds. CitiStreet operates on an open architecture investment platform; therefore, we are able to add additional funds and managers to our platform, and do so frequently. Not limited to mutual funds, CitiStreet utilizes separate account and commingled investments whenever an advantage can be offered – especially an advantage in cost to plan and participant.

In addition, CitiStreet can support the construction of customized investment options. For example, clients may choose to construct Asset Allocation funds (including risk or age-based balanced funds) either by using their plans core investment options or investments not available elsewhere in the plan. CitiStreet currently administers over \$5 billion in custom asset allocation funds.

#### **CitiStreet's Investment Philosophy**

The central goal of our investment philosophy at CitiStreet is the construction and maintenance of plan investment structures that meet the needs of each plan's unique participant base, taking into account the unique individuals who comprise that base. This translates into a selection of investments that, when properly organized and communicated, allow participants of varying levels of interest and sophistication to select or construct portfolios that meet each individual's specific risk/return profile. This is accomplished by combining three separate processes; initial design of the plan investment structure, initial selection of individual plan investments, and ongoing monitoring and maintenance of plan design and individual plan investments.

#### **Our Approach to Investment Selection**

When selecting the individual investments that will populate a plan's investment structure, we seek to identify managers who have shown an ability to consistently outperform their benchmark and peer group and adhere to a consistent investment style and strategy.

#### **Identification of candidates**

Each quarter, we screen the investment universe for mutual funds that are suitable for defined contribution and deferred compensation plans. We rank our affiliated funds (SSgA & Citigroup Asset Management) in this process and use similar methods to include collective funds and separate accounts.



In order to monitor and screen this large universe, we have developed a proprietary quantitative ranking system. This is a factor-based model that includes elements such as Annualized Performance, Standard Deviation, Alpha, Sharpe Ratio, and Information ratio. Essentially we seek to identify funds that offer consistent risk-adjusted returns above the benchmark on a net of fees basis. Our models consider 1, 3 and 5-year data, with the 5-year elements having the highest weighting and the 1-year having the lowest weighting. Funds generally must have a minimum 3-year track record. The funds are separated into Morningstar asset categories. Within each asset class the funds are assigned a score and ranked from best to worst. We focus on the top 20% of funds in each asset category.

In addition to the quantitative analysis, we perform qualitative and fundamental analysis to delve deeper into investment composition and behavior. We rely on our knowledge of portfolio behavior, investment-style nuances, and managers' history. Each of the actively-managed funds proposed by CitiStreet is intended for use by participants within an overall asset-allocation strategy; a reasonable level of style consistency is necessary so that investors can rely on the funds to fill their expected diversification roles. Before a fund is considered for inclusion in an investment menu, the fund's style consistency is evaluated via Zephyr Style Advisor and Morningstar.

We also pay careful heed to expense ratio. From a fiduciary perspective, we believe it is prudent to identify and red flag funds whose expenses are markedly higher than their category's average. In addition, we encourage Sponsors to utilize institutional or collective alternatives when appropriate.

In addition to quantitative and fundamental review, we perform due diligence with our investment alliance partners in the form of meetings and conference calls. We may have managers come to our offices in Quincy or we may make on-site visits to discuss specific funds and to gain more insight into environment and culture. We distribute RFI questionnaires to investment managers on a periodic basis (samples of our questionnaire are available). We also receive quarterly commentary from our alliance partners on the majority of the funds in which we have an interest.

Through this disciplined and thorough process, we identify 5 to 10 managers per asset category that we feel might be prudent choices for defined contribution plan sponsors under a wide range of situations. Using the resulting "best of class" list as a base, we identify investments that we feel are appropriate for specific plan situations given each individual plan's population and objectives.

#### **Ongoing Investment Monitoring**

On the CitiStreet platform level, we monitor our mutual fund investment universe for under-performance or changes in manager, style, and expense. For those funds in which we have an interest we will ask the investment manager to explain the situation, and, in the case of under-performance, to provide a detailed attribution analysis.

On an ongoing basis, our service is intended to meet Michigan's particular needs and schedule. Jay Young will be available to assist in virtually any plan investment related manner, including but not limited to:

- *Assistance with the development of and adherence to a formal investments policy.* We view a properly constructed and used investment policy as a necessary foundation for a sound investment structure.
- *Delivery of plan investment reviews.* Investment reviews can be delivered at a periodicity convenient to Michigan. The majority of our clients prefer semi-annual formal reviews, but reviews can be scheduled on a more or less frequent basis.
- *Assistance in searches for replacement or additional managers*

In the case of the addition of a new asset category or replacement of an existing manager, CitiStreet can assist Michigan by distilling a group of top-tier managers to be included in the search, gathering necessary characteristic, strategy, capability, and philosophical information, and creating and delivering competitive comparison presentations. Michigan may also add any manager they desire to the search process.

(1c) – Please refer to question 1b



(1d) – We work with a plan sponsor to develop expectations for investment performance. If a fund does not meet expectations we will elevate the monitoring of the fund. This will include asking for more frequent performance and attribution updates. It most likely will also include phone calls and or meetings with the portfolio manager. The goal is to understand the reason for the underperformance. If the explanation of the underperformance is reasonable, the fund will be allowed a period of time to recover. The amount of time is dependent on many factors including the magnitude of the underperformance, the confidence in the manager and whether the fund has undergone significant changes in philosophy, strategy, management (portfolio managers or analysts) or ownership.

(2a)

1. Search for and selection of replacement fund
2. Notify existing future managers
3. Direction to plan administration
4. Develop communications strategy and materials
5. Notify participants
6. Implement change

(2b) Depending on the funds involved, a fund add or replacement takes 1-3 months to complete.

(3) CitiStreet has had success in communicating fund changes by using a "multi channel" approach to the dissemination of this type of information. Initially, a Fund Change Newsletter should be developed outlining the facts of the change including; important dates, black out periods, mapping etc. This newsletter should be mailed to all those participants currently affected by the change. Posters should be created and posted in common areas to notify participants and non participants of all the change particulars. Highlights and talking points should be electronically communicated to HR representatives and Agency Coordinators encouraging them to communicate the changes and share the information with the employees. CitiStreet employees, particularly Customer Service and Field Staff undergo special training to ensure they are aware and knowledgeable about the changes. In addition all CitiStreet Communication campaigns contain a measurement element. In the case of a Fund change, CitiStreet will track the number and type of inquiries about the changes to monitor how well the changes were communicated. Recently in the State of Arkansas CitiStreet communicated several fund changes occurring all at once. The call volume amounted to less than a 1% increase to the typical volume. This would seem to indicate how effective the communication was in communicating the changes and what participants should expect.

(4a) Please refer to question 1b

(4b) Please refer to question 1b and 1c.

(5) CitiStreet considers itself a leader in implementing short term redemption fees. We have designed a generic program code and as the specifics for each fund and plan require this, we are able to implement in an expeditious fashion.

#### 1.104e Work and Deliverables – Investment Advice Services

The Advisor Service was introduced to the State of Michigan participants and beneficiaries in the 401(k) and 457 plans in 2003. It is available to the over 100,000 participants (80,000 individuals) in the two (2) Plans. Currently 27,664 participants have used the Advisor Service since 2003.

This service will provide advice – professional, unbiased investment planning, personalized reports and support – to create a savings and investment strategy based on the participant's personal retirement goals.

The Advisor Service should offer personal investment advice and planning including:

- A. Help with retirement goals
- B. Retirement strategies and what-if scenarios
- C. Investment recommendations and automated transactions
- D. Automatic transfer of account information
- E. Periodic review and follow-up
- F. Total 401k & 457 account views



- G. Personalized reports
- H. Periodic account rebalancing

The participants will receive a personalized Forecast that details their progress toward reaching their retirement goals. The report is based on participant's personal information, including Plan account balance, information provided on other retirement savings vehicles, pension data, social security estimated benefits, current income, savings, risk tolerance and desired retirement age. The service should also factor in current contribution amounts to further fine tune the advice participants receive.

The participants access the Advisor Service via online or by calling and talking with a representative. There will be no direct fee to the Plan or the participant for the online access to the service for current State employees. All participants can receive a free one-time only financial consultation using the Advisor Service over the phone.

- (1) Describe your investment advisory services that you will be providing to the State (i.e., Morningstar ClearFuture, Financial Engines, etc.). Describe the costs, if any, associated with offering this service.
- (2) Indicate whether your advisory service is through a partnership with an outside company. Please identify. Describe your due diligence process for selecting the partner and what services are provided.
- (3) Is your investment advisory fee, if any, based on a total plan level for all participants or only charged to those participants who elect this service?
- (4) Describe the degree to which you tailor your advice services to different types of investors.
- (5) How does your program ensure that it provides Plan participants with impartial and balanced information about the Plans' investment options without any conflicts of interest between the advice provider and the investment provider's products?
- (6) Describe each component of the information and advice provided, including those related to asset allocation, time horizons and risk profiles, to future retirement income needs, and to assessing the impact of different asset allocations on retirement income.
- (7) Describe the generally accepted investment theories that form the basis for your advice model.
- (8) By offering investment advisory services, either through your proprietary or third party provider, you will agree to indemnify the State per contract requirements.
  - What is disclosed to participants regarding your role as a fiduciary?
  - Describe the type and level of indemnification your organization is willing to provide to the State.
- (9) How many and what percentage of your existing clients have subscribed to this service?

Requirements:

- A. The provider of the advisory service must:
  1. Be registered as an investment advisor under the Advisors Act.
  2. Not be subject to any of the disqualifications set forth in section 411 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").
  3. Acknowledge that the services are in accordance with all federal laws related to such services.
  4. Acknowledge that they are a fiduciary.
- B. The provider of the advisory service must provide the following documents to the plan sponsor:
  1. Monthly Usage Report.
  2. Quarterly Investment Review and Due Diligence Report.
  3. Part II of form ADV Disclosure Statement.
  4. An Advisor Service fact sheet.



- C. The provider of the advisor service must:
1. Set annual usage goals agreed to by the state.
  2. Design an exit strategy if the state decides to no longer have an advisor service available to plan participants.

**Contractor Response to Task 1.104e:**

(1) CitiStreet currently delivers the CitiStreet Advisor Service to the State of Michigan plan and employees through our partnership with Financial Engines. Financial Engines powers the Advisor Service with its proprietary, leading edge advice technology and financial methodology.

Taken together, our services provide you with the means to reach *all* your employees and give them the help they need to make confident, informed decisions to secure their financial futures. The standard approach to offering the CitiStreet Advisor Services allows the plan sponsor to provide comprehensive, ongoing support to employees, maximize fiduciary protection, and minimize costs.

Valuable advice is delivered to all plan employees by mailing **Personal Evaluations**, providing Person-to-Person advice and unlimited access to the **Personal Online Advisor**. Individuals will also be introduced to professional account management and those desiring an increased level of assistance can choose to enroll in the **Professional Account Manager** program via call center.

**Service Descriptions**

**Personal Online Advisor** – This solution offers the do-it-yourself and motivated investor 24-hour, 7-day-a-week access to personalized and specific investment recommendations, comprehensive forecasting, and education. Quick and easy to use, it also provides quarterly Progress Reports, and an Advice Light that alerts employees whenever the service has new advice for them. Users can enter in any additional savings and investments allowing comprehensive retirement planning and even choose to plan for other goals like education or a major purchase.

Participants also have the option of implementing the recommendations from their Advice Action Kit online, pre-populating transactions from the Personal Online Advisor to the Plan Web site.

**Personal Evaluation Statement** – These personalized statements clearly show employees what their investments and savings might realistically provide in the future, and how taking a single action, such as saving more, diversifying investments, or working longer could improve their financial outlook. Sent by mail, they reach all your employees, introduce advice services and help them take positive action.

- Value to all employees
- Provides an assessment of savings and investment decisions
- Increased Sponsor Fiduciary Protection
- Strong call to action to use the Advisor Service
- Request a personalized proposal with specific recommendations
- Increases understanding of Plan

**Professional Account Manager** – This professional management program is designed for employees who, whether due to a lack of time, interest, or expertise, would rather delegate investment decisions. The program considers an employee's total financial situation and develops a personalized portfolio that's continually monitored and periodically adjusted. Regular Progress Reports keep employees informed, and ongoing access to a professional investment advisor ensures that they can get the information and answers they need. Online access to their accounts is also available at all times.

Professionally licensed Investment Advisor Representatives, available by calling the Plan Information Line, provide objective, comprehensive advice, guidance, and ongoing support for plan employees who wish to work with a live person. Advisors conduct a retirement assessment, develop a set of goals and offer recommendations designed to meet those goals. Implementation of the agreed upon recommendations is immediate and confirmed by quarterly progress reports. CitiStreet investment advisor representatives also provide support for all other advice delivery channels.



- Plan Preview
- Progress Reports
- Employer Reporting
- Automatic Account Re-optimization
- Portfolio Adjustments over time
- Optional Contribution Escalator
- Ongoing Professional Management

(2) CitiStreet partners with Financial Engines® to deliver the CitiStreet Advisor Service. Financial Engines® powers the Advisor Service with its proprietary, leading edge advice technology and financial methodology. A copy of CitiStreet Advisors' Due Diligence process and Monitoring Checklist documents are included as

**Appendices XX.**

(3) There are two general categories of fees associated with the advisory services proposed: 1) Platform fees and 2) Professional Account Manager fees.

**Platform** – This online access cost is paid by CitiStreet for all participants with a balance. This may be allocated to all participants or borne by the plan sponsor. This fee provides for the availability of all services to the plan, delivers ongoing support of the advisory platform for all participants and enables the delivery of the Personal Evaluation to all plan participants.

**Professional Account Manager** – Participants who choose to have their accounts managed receive personalized guidance and advice as well as ongoing account management that is designed to help improve the chance of meeting their financial goals. The CitiStreet Advisor Service provides continuing value by managing accounts on an ongoing basis.

Please note that the CitiStreet Advisor Service is a suite of services and are implemented jointly. The services described herein cannot be taken individually or otherwise re-packaged.

(4) CitiStreet Advisors' approach to retirement education and advice is to provide a personalized experience that meets the unique needs of all plan participants. When it comes to planning for retirement, CitiStreet Advisors recognizes that different employees have different needs.

**Different Employees, Different Needs**

CitiStreet Advisors provides a full range of services designed to reach every type of investor. Industry and CitiStreet Advisors' research has identified that investors generally fall into the following three different segments based on the amount of time they have to spend and the expertise they have in investing.

**Do-it-Yourself:** These investors have significant interest in investing and are willing to spend substantial time making investment decisions – *“Teach me.”*

**Motivated but Uncertain:** These investors are willing to dedicate some time to investing, but lack confidence in their current decisions – *“Tell me.”*

**Reluctant:** These investors have very little expertise in investing or have little time to spend making investment decisions – *“Do it for me.”*

**Complete Suite of Advisory Services**

CitiStreet Advisors' complete suite of advisory services offers solutions for all types of investors, regardless of tie or investment expertise.

The CitiStreet Advisor Service is powered by Financial Engines®' proprietary, leading edge advice technology that delivers consistent, personalized advice and portfolio management across multiple delivery channels—online, on paper and by phone.



**Service Enhancements**

CitiStreet understands that one of the important focus areas for the State of Michigan is newly hired employees and working to get those individuals enrolled in the program with voluntary contributions. The reason this is important is to take advantage of the employer contribution in the DCRP. As presented to the State recently, CitiStreet is enhancing the account management program in the fall of 2007 and delivering Personal Evaluations to all plan participants shortly thereafter.

The enhanced program provides for a new potential enhancement geared towards new hires. Generally, the Personal Evaluation is a specific event that takes place every 12-18 months and is mailed to all participants that have a balance at the time. CitiStreet would like to explore the possibility to sending a Personal Evaluation to new employees after their first DCRP contribution. The Personal Evaluation would be configured to recommend a savings increase and allocation change based on that participant's current age and assumed retirement age.

The advantage to sending the interim statement is to illustrate the value of Michigan's DCRP contribution, alert new employees early in their employment when they are most likely considering benefits decisions and avoid the delay of up to 1 year before employees receive a Personal Evaluation. CitiStreet recognizes the importance of engaging employees with respect to their retirement planning as early in their career as possible, maximizing voluntary contributions and helping participants allocate their retirement investments in a suitable manner.

CitiStreet looks forward to continuing the positive and productive efforts to help State of Michigan employees better plan for retirement.

(5) The CitiStreet Advisor Service (CAS) provides strictly objective and independent advice and investment management. CitiStreet Advisors has structured its business and sponsor relationships to remove any possibility of economic conflicts of interest. CitiStreet Advisors does not receive any commissions, soft-dollar payments, 12-b1 fees, or any other revenues derived from the sale of investment products. One hundred percent of CitiStreet Advisors' revenues are derived from advisory and account management for investors. No revenue is directly received from asset management companies based on investment recommendations. Personalized advice and portfolio management is CitiStreet Advisors' sole business focus.

Advisors are salaried employees of CitiStreet and do not cross-sell other financial products; CitiStreet Financial Advisors are an objective source of enduring investment education, advice and retirement planning.

In addition, the CitiStreet Advisor Service utilizes a consistent advice methodology across its customer base, which is overseen by the Financial Engines Investment Committee. All CitiStreet Advisor Service clients and participants, regardless of whether accessing the Personal Online Advisor or Professional Account Manager program, receive the same consistent, high-quality recommendations. Moreover, Financial Engines' methodology has been extensively reviewed and analyzed by dozens of treasury departments among the Fortune 500, as well as independent pension consultants hired by a number of our clients.

(6) The CitiStreet Advisor Service (CAS) provides investors with the information they need to make informed savings and investment decisions. The cornerstone of this approach is the use of a sophisticated Monte Carlo simulation engine that provides participants with a realistic view of their potential retirement income. By simulating the characteristics of the actual investments held by each participant, the Advisor Service shows the trade-off between the risk of the investment allocation, and the expected return of the assets in generating retirement income. For each portfolio, the CAS simulates its potential performance through thousands of economic scenarios yielding a Forecast of upside, median, and downside retirement incomes. This allows participants to directly observe their potential investment outcomes and select a risk profile that best suited for their preferences and investment time horizon. Furthermore, the CAS provides specific fund recommendations to help participants select the investment portfolio that will maximize their probability of reaching their retirement objective. Unlike traditional asset allocation models, the Advisor Service provides specific fund recommendations that take into account not only the asset class exposures of the options in the plan, but also their expenses, active management risk, concentration risk, implicit trading costs due to turnover, and the relative magnitude, duration, and consistency of manager performance. The seamless integration of all this information in an easy-to-use service provides participants with the ability to quickly achieve their retirement objectives.





(7) The Financial Engines' methodology that powers the CitiStreet Advisor Service is based on the life-long work of Financial Engines' founder William F. Sharpe, 1990 Nobel Laureate in Economics. Financial Engines® has extended Dr. Sharpe's application of modern financial economics from the pension world to the problems of individual investors. Specifically, Financial Engines® uses best practices from academic finance and the world of institutional money management to provide the highest quality personalized investment advice to participants. This methodology is based on several areas of theory and research:

**Modern Portfolio Theory** – The foundation of the portfolio allocation system utilized by the CitiStreet Advisor Service is modern portfolio theory. Financial Engines' founder, William F. Sharpe was one of the leading developers of modern portfolio theory and its application in real-world investing problems. The goal of this methodology is to help participants construct portfolios that maximize their expected returns relative to their desired level of risk. Financial Engines' analysis is conducted using the actual characteristics of funds, taking into account fund expenses, turnover, style, manager performance, etc. to determine how those assets may perform for a range of economic outcomes. To facilitate modeling the problems faced by all participants, our platform models the characteristics of more than 23,000 mutual funds and individual stocks. The optimization model draws upon the latest academic research regarding asset class factor models, the measurement and prediction of manager performance, and the estimation of market risk premia using information embedded in market equilibrium.

**Monte Carlo Simulation** – provides a likely range of outcomes of the participant's portfolio, by assessing the specific funds response to underlying asset class and market performance – rather than relying on a deterministic projection of the participant's likely return. Monte Carlo models have been used in pension fund asset/liability studies for more than two decades, but CitiStreet Advisors was among the first companies to utilize this powerful technology to deliver advisory services to individual investors in 1998. Financial Engines' analysis provides an estimate of the likely median outcome, as well as a best case (top 5% probability) as well as a 'worst case' (bottom 5% probability) so that the participant can make an informed decision on their comfort with a given strategy. By providing real-time access to sophisticated simulations of their actual portfolio, participants can view how their investment outcomes change with different strategies.

**Total Portfolio Approach** – all advice and projections are personalized to the individual, based on as much information on their complete financial situation as they are able to provide. For two identical investors, with identical savings plan balances – our advice will be different for each depending on their outside assets. This personalized approach recognizes the complexities of investor financial circumstances to make unique recommendations designed to maximize their probability of retirement success. Our approach is also able to provide tax-efficient recommendations across the entire household portfolio.

(8) The Plan Fiduciary hereby acknowledges and represents to CitiStreet that:

- (a) the execution and performance of this Agreement will not violate any provision of the governing documents of the Plans or require the Plans to obtain any consent or waiver not heretofore obtained;
- (b) the Plan Fiduciary is duly authorized to enter into this Agreement on behalf of the Plans and this Agreement is a legal and binding obligation of the Plan Fiduciary and the Plans, enforceable in accordance with its terms;
- (c) the services described hereinafter are in accordance with all federal laws related to such services are in accordance with DOL Advisory Opinion 2001-09A ("DOL Advisory Opinion"); and
- (d) the Plan Fiduciary has reviewed the manner in which CitiStreet will provide investment advice hereunder, as described in Exhibit A, and understands that such advice, if followed by the Participants, may result in the receipt of additional revenue by CitiStreet and its affiliates; and
- (e) it and any of its delegates are investment fiduciaries with respect to advisory services provided to the Members of the Plans under this Agreement and as such agree that they are subject to and comply with the Michigan Public Employee Retirement System Act (MCL Section 38.1132 et. Seq.), to the extent required under such act. Compliance with the DOL Advisory Opinion shall be deemed to be compliance with applicable state and federal law.



The Plan Fiduciary further acknowledges to CitiStreet that it and/or the Participants may be required by CitiStreet or Financial Engines to execute certain license and other agreements with CitiStreet or Financial Engines, as a condition to being entitled to receive the investment advisory services contemplated hereunder. In addition, the Plan Fiduciary acknowledges that affiliates of CitiStreet own an interest in Financial Engines the amount of which has been disclosed to the Plan Fiduciary and that CitiStreet has disclosed to the Plan Fiduciary the percentage of aggregate gross revenues may be derived from fees paid to Financial Engines by CitiStreet and its affiliates. The information will be updated upon the reasonable request of the Plan Fiduciary.

CitiStreet will have no liability whatsoever under this Agreement and will not be responsible under this Agreement for any loss (including attorney's fees) or other damages that result from:

- a. a breach of fiduciary duty of the Plan Fiduciary;
- b. incorrect data provided to CitiStreet or Financial Engines by the Plan Fiduciary (or any of its employees or agents) or by a Participant;
- c. any failure by the Plan Fiduciary or a Plan administrative service provider to process Participant investment instructions completely or accurately; or
- d. the selection and composition of the Designated Investment Options or any other investment options available under the Plans.

The preceding sentence will not relieve CitiStreet or any of its affiliates of any responsibility or liability they may have or incur by reason of any other contractual relationship with respect to, or any other services provided to, the Plans, or any violation of Michigan or federal law. Compliance with the DOL Advisory Opinion shall be deemed to be compliance with applicable federal and state law.

(9) There are over 60 CitiStreet clients that offer participants access to the Advisor Service, this represents over 50% of CitiStreet's institutional clients.

(A1-4) Confirmed.

(B1-4) Confirmed.

(C1-2) Confirmed.

#### 1.104f Fees

Based upon assets and estimated net new cash flow into the Plans, it is the State's expectation that there would be no hard-dollar recordkeeping fee applied to the participants' accounts. Therefore, all administrative fees to cover recordkeeping and plan administration including communication services and education are not to be imposed by the new TPA. Contractors should confirm their understanding of this requirement. Please note, pricing should be submitted separately in the format provided in Article 1, Attachment A.

#### Contractor Response to 1.104f:

We understand and agree to this requirement. Pricing has been submitted separately in the format provided in Article 1, Attachment A.

### 1.2 Roles and Responsibilities

#### 1.201 Contractor Staff, Roles, and Responsibilities

The Third Party Administrator will assign a Relationship Manager who will work solely with the State of Michigan Plans. This person will be a senior person with a minimum of 10 years of experience in administration of defined contribution plans and will be the primary contact person for State personnel. Additional staff will be assigned as needed and will work solely on the Michigan Plans.

**1.202 State Staff, Roles, and Responsibilities**

Workforce Development & Retirement Administration will oversee the contract(s). The Specialist, 401(k) and 457 Plans will be the primary person working with the Vendor's Relationship Manager and overseeing the contract terms. Additional staff in Workforce Development & Retirement Administration will be assigned to support the Specialist.

**1.203 Other Roles and Responsibilities - Reserved**1.3 Project Plan**1.301 Project Plan Management**

Within 30 business days of contract award, the Third Party Administrator must submit to Workforce Development & Retirement Administration a transition work plan for final approval. This final implementation plan will focus on a July 1, 2007 implementation date and must be in agreement with the Contractor's proposal as accepted by the State for the contract. The Plan must include:

- The contractor's transition organizational structure
- The contractor's staffing table with names and titles of personnel assigned to the transition project. This must be in agreement with staffing presented in the proposal. Necessary substitutions due to change of employment status and other unforeseen circumstances may only be made with prior approval of the State.
- The Plan should be detailed by sub-projects, activities/tasks, and resources required/ allocated to each
- The time-phased Plan in the form of a graphic display, showing each event, task and decision point in the work plan

The contractor will carry out the transition from the current contractor under the direction and control of Workforce Development & Retirement Administration.

The project director of the contractor and the State will meet weekly during the transition period to review progress and provide necessary guidance to ensure that all State requirements are met. Additional contact between appropriate parties as needed.

The contractor(s) and Workforce Development & Retirement Administration will meet monthly during the term of the contract.

The Specialist, 401(k) and 457 Plans will complete a comprehensive review of contractor(s), based on the specific terms of the contract on an annual basis. Additional progress reviews may be completed quarterly or on specific projects as they arise.

**Contractor Response:**

CitiStreet will adhere to the requirements of the State.

**1.302 Reports**

Monthly partnership meetings will review progress on the annual partnership business plan. Vendor will supply a report that outlines the annual business plan and the progress on each project. Weekly conference calls will discuss details of projects and individual participant issues. Vendor will supply a weekly report that details the status of each project or problem.

**Contractor Response:**

In joint discussions with the State an annual business plan is created which details the goals for the current year. The individual goals are assigned target completion dates. Monthly Partnership meetings are held to track the progress.

In addition to the business plan, there is a weekly Joint Initiatives grid which details other plan/employee related projects. The Joint Initiatives grid is reviewed weekly between CitiStreet and the State.

1.4 Project Management**1.401 Issue Management**

Issues are those things that endanger the project. It includes imminent threats and events that may have already occurred. Identify how issues will be captured, reported and escalated. Identify how issues will be captured, reported and escalated. Define the issue escalation process to include whether escalation will be based on age, severity, budget impact, etc. and the escalation path.

**Contractor Response:**

CitiStreet follows a rigid project management protocol that includes project plans (Microsoft Project, word or Excel), open item tracking and open issue lists. Weekly internal meetings are held with all team members to review these reports and update them. Senior management attends these meetings to identify issues that need to be resolved and or escalated on an accelerated basis. Also weekly, are project status meeting with the client at which the project plan, open items and issue logs are reviewed and addressed. Additionally, there are monthly Steering Committee meetings that are held either in person or on the phone to address issues that are escalated by the members of the weekly teams either by CitiStreet members or the Client members.

Internally CitiStreet holds weekly meetings of department heads at which the status of each major project is discussed and issues are reported and assigned to the appropriate department head to follow up on.

To date, CitiStreet has yet to meet a project live date due to unresolved open issues under the control of CitiStreet. In fact, CitiStreet has yet to miss a project live date for any reason.

**1.402 Risk Management - Reserved****1.403 Change Management**

If a proposed contract change is approved by the Contract Compliance Inspector, the Contract Compliance Inspector will submit a request for change to the Department of Management and Budget, Purchasing Operations Buyer, who will make recommendations to the Director of Purchasing Operations regarding ultimate approval/disapproval of change request. If the DMB Purchasing Operations Director agrees with the proposed modification, and all required approvals are obtained (including State Administrative Board), the Purchasing Operations Buyer will issue an addendum to the Contract, via a Contract Change Notice. **Vendors who provide products or services prior to the issuance of a Contract Change Notice by the DMB Purchasing Operations, risk non-payment for the out-of-scope/pricing products and/or services.**

1.5 Acceptance**1.501 Criteria**

The following criteria will be used by the State to determine Acceptance of the Services and/or Deliverables provided under this SOW:

Implementation must be accomplished according to the agreed upon timelines. The State Project Manager will determine final acceptance of the implementation as identified in Article 1.104.

Work and deliverables will be approved based on criteria as set forth in Article 1.104.

**1.502 Final Acceptance - Reserved**

1.6 Compensation and Payment**1.601 Compensation and Payment**

See Article 1, Attachment A for pricing.

1.7 Additional Terms and Conditions Specific to this SOW-**1) Fiduciary responsibility. Please explain in what additional areas Citistreet is willing to act in a fiduciary capacity?**

We are pleased to have this opportunity to further clarify and expand our original response. We asked our chief counsel to review this and provide input into our response.

Some providers seek to distinguish themselves by labeling their services under the vague notion of being a "fiduciary" of a non-ERISA plan. In this regard, we have found that there is a wide gap in the understanding of the role of plan sponsor fiduciary responsibility between ERISA plans and non-ERISA government plans. Therefore, we believe that our clients are best served by understanding the responsibilities they have with regard to their plans as a "fiduciary" under state or Federal law. In this regard, for ERISA plans and non-governmental plans, there are many responsibilities that cannot be delegated. We believe the best service model is one in which we help our clients fulfill all of their responsibilities whether they are true ERISA fiduciary responsibilities or state law created fiduciary responsibilities. In every case, we have a dual focus, ensuring that participants have the best possible experience they can to help them attain their retirement goals and ensuring that our client as sponsor of the plan fulfills its responsibilities.

The State of Michigan, as the trusted caretaker of the state's plan, may wish to select a service provider that will help the state provide the highest level of services to its participants whether or not that service provider uses the terminology of fiduciary responsibility. In today's litigious environment, what's critical is that the service provided helps the client to prevent a lawsuit from happening in the first instance. At CitiStreet, we strive for a zero-defects participant experience whether the participant is accessing the plan through a call center representative, a voice response system or the internet. In the event that something should go wrong, however, CitiStreet takes full contractual responsibility to correct the participant's situation based upon standards implicit in a fiduciary relationship. In other words, we ensure that the participant receives the benefits he or she should have received whether a transaction was processed correctly or not. We will in practice and by contract support this notion of fiduciary responsibility with respect to the recordkeeping services we provide.

We would also like to reiterate the importance of any plan sponsor's fiduciary role, whether that role is defined by ERISA or under state law notions of fiduciary responsibility. CitiStreet is committed to assisting plan sponsors in fulfilling their fiduciary role. We provide fiduciary support for example through full disclosure of our fees. In light of recent class action litigation in the industry, the importance of this disclosure cannot be overemphasized. We offer plan sponsors "investment independence" and are willing to support any fund line up chosen by the plan sponsor. We offer plan sponsors a complete array of reporting opportunities so that they will have the most current information on their plans to make prudent decisions with regards to the plan's operation, administration and investment line up. We establish service standards so that a plan sponsor will know that all services will be provided at levels clearly defined by each party. Finally, with our knowledge and experience in the industry through our large client base, we bring our clients the latest and best practices in the industry.

**2) What assurances is Citistreet willing to give in reference to the development of a Michigan based call center?**

In our proposal we indicated our commitment to contract with Michigan based women, minority and disabled owned businesses as well as to continue to contract as we have in the past with a Michigan based survey research firm to conduct the annual client satisfaction survey.

We can also commit to placing between 10 to 20 call center representative's jobs in Michigan through our Home Based Agent program. These agents will become NASD 6 and 63 licensed. This program, active for other plans, provides secure remote access to all the functionality and controls of the call center at a work location outside a physical call center. This allows for greater coverage, more flexible work schedules and higher employee and client satisfaction.



In addition we indicated our desire to explore the opportunity to further show our commitment to Michigan by placing a call center in the state to service not only the Deferred Compensation Plans but expand to become a fourth full contact center for our overall business. To that end we can assure the state and the review panel that we are moving forward on this development pending positive results from our financial and workforce analysis. This business analysis and decision process has not moved as rapidly as we would have hoped. However, since we issued the proposal we have had further conversations with MEDC on programs and incentives available through the state and their local partners, possible locations, begun collecting data on workforce demographics in various areas of the state, and have follow up conference calls planned to continue to move our research along.

We have also had conversations with possible partners and are planning site visits within the next few weeks. We have attached an outline of our work plan for this development project.

To summarize, we are committed to adding jobs in the state through our Home Based Agent program and can assure you that the analysis and possible development of a call center location is a serious undertaking by the Company and our President Sandy McCarthy,. We value the past partnership we have had with DMB and ORS and pending positive confirmation of the business aspects of the project wish to place a call center in Michigan.

**3) Please comment on Citistreet's willingness to conduct a death audit.**

We are willing to conduct periodic matches between our outside vendor's data base of reported deaths and the Michigan participant data base to identify any possible instances where the status should be corrected and action taken. We would make the data available to the state also.

The file used to locate deceased participants is the Social Security Administration Deceased file. The vendor we use for the search is Anchor.

**4) Please clarify how many Michigan-based representatives you are proposing, in what capacity and when they would start. This should include the Lansing-based reps, home-based reps and the proposed Detroit contact center. (Pages 74-75)**

We are proposing a total of 15-70 Michigan-based representatives, depending upon the configuration of our overall service model, initially consisting of the following:

- Lansing-based Representatives - We are proposing five(5) Lansing-based representatives (we could also separate and have four(4) Lansing-based and one(1) Detroit-based if the State prefers). Three Lansing-based employees are currently employed and actively working on the State of Michigan plans. We are interviewing candidates for a fourth Lansing-based employee currently and hope to hire someone within the next few weeks. The fifth Lansing-based employee would be hired upon being awarded the contract again with the State of Michigan. These representatives' activities would be conducting educational group meetings and 1-on-1's throughout the State, and walk-in and phone service in Lansing. In addition they would service State established goal activities such as the current New Hire Campaign which is a local, high-touch approach, provide support to a DB and Deferred Compensation coordinated educational approach and an educational initiative for those nearing retirement regarding the benefit of leaving their assets in the Plan.
- Non Centrally Located Call Center Representatives in Michigan (Home-based Representatives) - We are proposing 10-20 Non Centrally Located (home-based representatives) initially, who would be handling inbound phone calls for the State of Michigan. They would also be available to assist with field activities, if needed. These employees would start after January 1, 2008.
- Detroit Contact Center - We are continuing to explore our possibilities for a physical location for a call center in the State of Michigan that we envision having 55 employees initially. This site would not only service the State of Michigan inbound phone calls, but also other CitiStreet clients. We have worked and will continue to work with Focus-Hope and MEDC in exploring the possibilities. If all continues on the right path, this site would be functional in 2008.





**5) Would you please clarify what data is retained past seven years and how it is stored? (Page 36)**

CitiStreet has stored year-end back-ups as described in the original answer for the full ten 10 years of the original contract with the State of Michigan. CitiStreet would be willing to commit to storing the year-end back-ups for 15 years, which would include historical information during the first 10 year contract and the proposed new 5 year contract.

**6) Please describe your fiduciary responsibility regarding recommendations of investment funds for us to choose from. Include in your answer the process that you will use in making your recommendations and whether you will disclose any actual or potential conflicts of interests that you have with any recommended fund, as well as any financial interest that you have in any recommended fund. (Page 113)**

CitiStreet has not provided invest recommendations to the Plan and does not take fiduciary responsibility regarding the selection of investment funds. We provide information to clients like Michigan in order to assist them in making investment selections.

CitiStreet promotes an "open architecture" with respect to available fund offerings. Therefore, clients may choose virtually any fund from the 17,000-plus mutual and commingled fund universe.

We do screen and consider investment products from State Street Global Advisors (SSgA) whose assets under management are over \$1.7 trillion. CitiStreet also currently has alliance relationships with over 120 mutual fund families offering over 2,200 funds that we make available to our clients including Legg Mason, Inc. with whom Citigroup, owner of a 50% interest in CitiStreet, has entered into a three-year global distribution agreement.

All revenue sharing is disclosed from both affiliate and non affiliate companies to plan sponsors. This complete disclosure has not been the standard practice in the industry, particularly in the case of Insurance Companies as evidenced by recent legal actions against several providers.

Our investment philosophy at CitiStreet is to offer defined contribution plans a variety of investments that cover the entire risk-return spectrum. These investments include cash and stable value, fixed income, domestic and international equity, and lifecycle funds. We seek to identify investments that adhere to specific benchmarks that represent the investment's objective and style. Furthermore, we monitor the consistency of the investments' objectives and styles over time.

We monitor and screen the investment universe to identify potential investments that are suitable for institutional defined contribution plans. In order to monitor and screen this vast universe, we have developed a proprietary quantitative ranking system. This is a multi-factor model that incorporates elements such as absolute returns, standard deviation, alpha, Sharpe ratio, and information ratio. Essentially we seek to identify investments that offer consistent superior risk-adjusted returns on a net of fees basis. Our model evaluates trailing 1, 3 and 5-year data, with the longer-term data elements assigned a greater weighting. Based on these factors, the model assigns a score to each investment, within each asset class, and ranks each investment from best-to-worst. This process is performed each calendar quarter.

A reasonable degree of style purity is expected, so participants can rely on the particular investment to fulfill their expected diversification roles. Investment style consistency is evaluated utilizing various tools, including Morningstar® and Zephyr StyleADVISOR®.

In addition to the quantitative analysis, we perform a qualitative and fundamental analysis to delve deeper into the investments' characteristics. We rely on our knowledge of portfolio behavior, investment-style nuances, and managers' history. We also perform due diligence meetings with our alliance partners. We hold periodic meetings with our alliance partners to discuss specific investments that have ranked highly in our model. Alternatively, if we have concerns regarding an investment, we will ask the manager to explain the situation and provide further analysis. We may also establish a more frequent review process until our concerns are satisfied.

We also assess an investment's overall costs. From a fiduciary perspective, we believe it is prudent to determine that an investment's expenses are appropriate for an institutional defined contribution plan.





**7) Please explain the benefit responsive charges of 6 basis points in addition to the 12 basis point expense ratio for the Stable value portfolio. Is this a new fee? How is the fee calculated and charged? (Page 93)**

The benefit responsive charges of 6 basis points are the fund level book value wrap contract fees for the service provided by multiple outside firms for Michigan. This is not a new fee. Wrap fees exist in all Stable Value Funds and have existed historically in the Michigan program. These fees have been documented and detailed in the Stable Value benefit responsive wrap contracts. The wrap fee is directly net from the crediting rate of the wrap contracts.

The wrap fee of 6 basis points is calculated as follows:

**Part 1:**

The average of the four globals wrap (each shares pro rata 25%).

Global Wrap 1 at 7bp

Global Wrap 2 at 7.5bp

Global Wrap 3 at 6.5bp

Global Wrap 4 at 7.5bp

Average = 7.125 bp

The global wraps constituted 82.75% of the pro forma combined portfolio.

Average global wrap fees of 7.125 bp times 82.75% of the portfolio is 5.9 basis points.

**Part 2:**

The single security wrap fees (these positions are maturing off and many will be terminated this year) are 8 bp each.

The single security wraps constituted 1.80% of the pro forma combined portfolio.

The single security wrap fees of 8 bp times 1.80% of the portfolio is 0.1 basis point.

The sum of the two parts of 5.9 bp plus 0.1 bp equals 6.0 bp.

There is no standard format for the reporting and disclosure of fees related to stable products but we are taking the most disclosive approach. We have also attached as information the fee disclosure primer developed by CIEBA.

Please note, neither CitiStreet nor SSgA receives revenue from these wrap fees.

**Article 1, Attachment A**

## Pricing

**Services:****Fees:****Comments:**

▪ Plan Set-up/Transition Fee	N/A	N/A
▪ Plan Level Termination Fee	TBD	TBD
▪ Per Participant Recordkeeping Fee	Included (\$22.64 per participant)	Paid by fund rev. share to CitiStreet
▪ Custodial Trustee Fees	Included (\$2.77 per participant)	Paid by fund rev. share to CitiStreet
▪ Trustee Fee Outside Investments	NA	NA
▪ Self-Directed Brokerage Account	Listed Separately	Listed Separately
▪ Investment Advisory Services	ON LINE Included .30% annually for call center advisors for managed accountd	Paid by fund rev share To CitiStreet
▪ Annuity Product	Paid by user	
▪ Check Processing	Included	
▪ 1099R Forms	Included	
▪ Postage	Included	
▪ Loan Administration:		
▪ Set-up	\$50 per loan	
▪ Maintenance	\$0	
▪ Hardship Qualifications	Included	
▪ Domestic Relations Order Qualifications	Included	
▪ Wire/ACH Fees for Participant Distributions	Included	
▪ Participant Statements	Included	
▪ Transaction Confirmation Statements	Included	
▪ Voice Response Services	Included (\$6.47 per participant)	Paid by fund rev share To CitiStreet
▪ Customer Service Center	Included above	Included above
▪ Internet Services	Included (\$3.23 per participant)	Paid by fund rev share To CitiStreet
▪ On-line Services:		
▪ Set-up/ongoing and software	N/A	N/A
▪ Employee Communication & Education:	Included (\$6.00 per participant)	Paid by fund rev share To CitiStreet
▪ Generic enrollment materials	Included	Included
▪ Customized enrollment materials	Included	Included
▪ Awareness materials (posters, tents, etc.)	Included	Included
▪ Audio tapes	Included	Included
▪ Video tapes	Included	Included
▪ Generic periodic newsletter	Included	Included
▪ Customized periodic newsletter	Included	Included
▪ Retirement planning tools	Included	Included
▪ Pre-retirement planning tools	Included	Included
▪ Investment education materials	Included	Included
▪ Enrollment Services:		
▪ No. of initial enrollment meetings	N/A	N/A
▪ No. of ongoing enrollment meetings (frequency and price per meeting)	See proposal	See proposal
▪ Enrollment Kits		
▪ Other (be specific) Field Staff and all educational services	Included(\$5.08 per participant)	Paid by fund rev share To CitiStreet



Please provide detailed responses to the following fee information:

- (1) What are the start-up/transition costs and plan termination costs, if any?

None

- (2) The State expects favorable fee renegotiations as the Plans' assets increase during the contract period. These fees would pertain to both the administrative and credit allowances of the Plans. How frequently will this be addressed and implemented?

Our fee proposed and reallowances are based on a desire to retain Michigan as a client and to demonstrate the Plan's important. This proposal is based on a fee reduction initially to the Plan and then retaining the assumed growth.

If there is additional growth above our assumptions we would be happy to discuss further.

- (3) What is the cost, if any, for financial advisory services (Morningstar, Financial Engines, etc.)? Does the cost of this service apply to the full Plan or only to the participants who subscribe for the service?

The cost of the CitiStreet Advisors on-line service is paid through revenue sharing from Legg Mason and at no cost to participants. All participants with account balances as currently receive this access as well as certain retirees.

Those that wish the added service of call center advisor Professional Account Management would pay 30 bps.

- (4) Currently, the TPA provides approximately three (3) basis points of assets in revenue sharing to the State. The State is looking to receive an equivalent or greater amount. Please provide the amount that you will reimburse back to the State.

CitiStreet will increase this to 4 bps of assets in revenue sharing to the State.

- (5) In addition to the fee schedule on the following page, please identify any other service or activity not covered on the "Service Activity" listing, *i.e.*, postage, handling, supplies, servicing commissions, etc. Please be specific to any item not covered.

None.

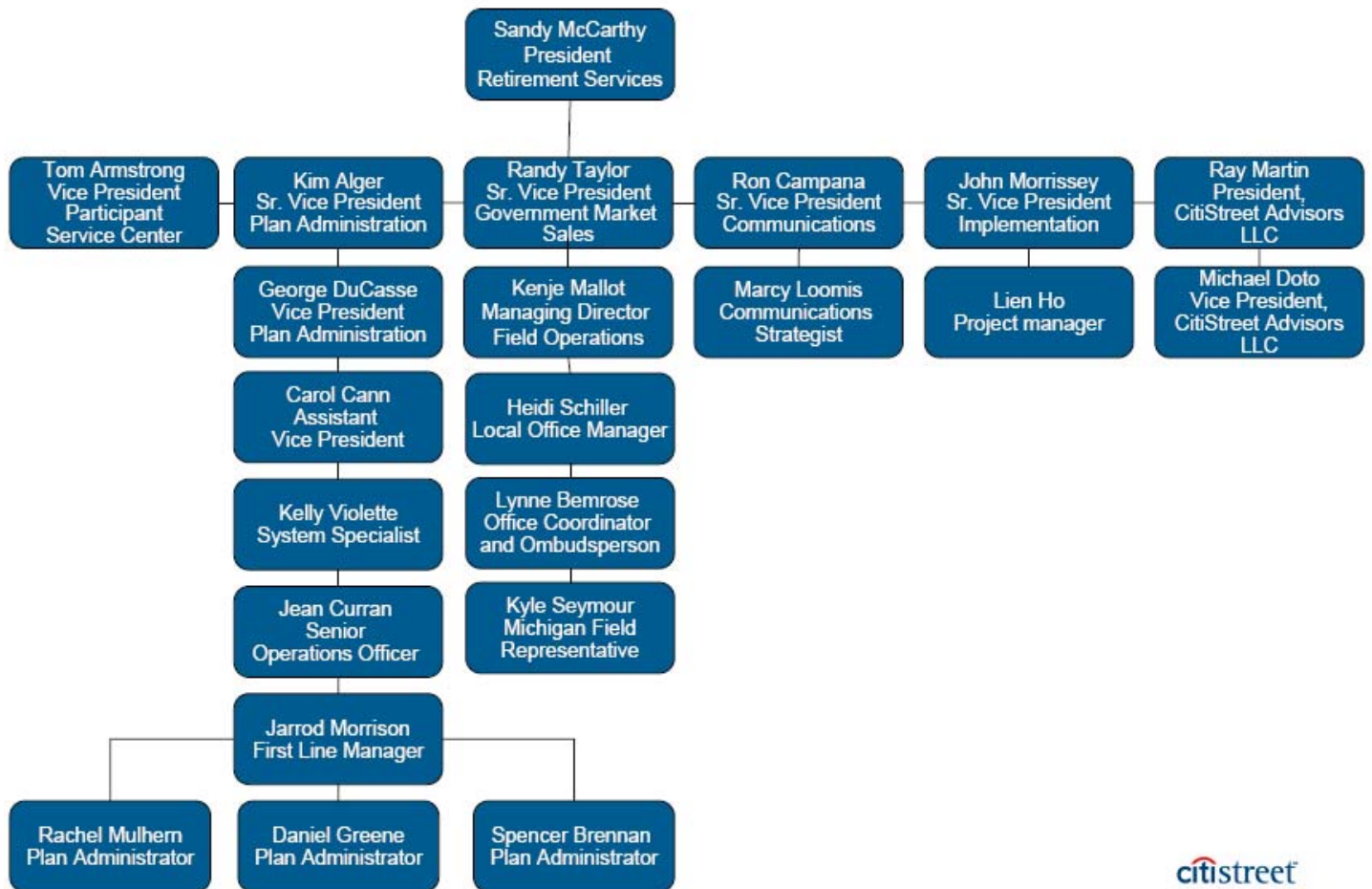


### Article 1, Attachment B

Organizational Chart, including Key Personnel

Contractors must include an organizational chart with their proposal.

## CitiStreet's On-going Team for the State of Michigan





Article 1, Attachment C & D - Reserved



**Article 1, Attachment E**

Project Plan  
See Attached

6/1/07 10/1/07 Live Date

Project Initiation	Responsibility	Target Start Date	Target Finish Date	Start Duration	Finish Duration	Actual Finish Date	Duration in Calendar Days
Contract Awarded	State of Michigan	6/1/07	6/1/07	122	122		0
Prepare implementation meeting materials	All	6/1/07	6/1/07	121	121		0
Conduct implementation meeting	All	6/1/07	6/12/07	121	110		11
Review implementation milestones with State of Michigan. Determine Steering Committee members and meeting schedule.	All	6/12/07	6/12/07	110	110		0
Discuss Communication/Education strategy for enhancements	All	6/12/07	6/12/07	110	110		0
Discuss what investments will be mapped							
Identify Requirements and Legal Documentation	All	6/12/07	6/12/07	110	110		0
Update Required Legal Documents	CitiStreet	6/12/07	6/12/07	110	110		0
Plan Document	State of Michigan /CitiStreet	6/12/07	6/23/07	110	99		11
Letter of Determination	State of Michigan /CitiStreet	6/12/07	6/23/07	110	99		11
Document List	State of Michigan /CitiStreet	6/12/07	6/23/07	110	99		11
Investment Advisory Services Agreement	State of Michigan /CitiStreet	6/12/07	6/23/07	110	99		11
Complete Incumbency Certificate	State of Michigan /CitiStreet	6/23/07	7/4/07	99	88		11
Schedule A	State of Michigan /CitiStreet	6/23/07	7/4/07	99	88		11
Custodian Contract	State of Michigan /CitiStreet	6/23/07	7/4/07	99	88		11
Notice of Appointment	State of Michigan /CitiStreet	6/23/07	7/4/07	99	88		11
Sub TA Agreement	CitiStreet	6/23/07	7/4/07	99	88		11
Sign new fund setup form	CitiStreet	7/4/07	7/15/07	88	77		11
Provide W9	State of Michigan	7/4/07	7/15/07	88	77		11
Sign Pricing & Expense Policy	State of Michigan	7/4/07	7/15/07	88	77		11
Investment management agreement	State of Michigan	7/4/07	7/15/07	88	77		11
Sign Fund Transfer Operation Policy (FTOP) agreement	State of Michigan	7/4/07	7/15/07	88	77		11



Project Initiation		Responsibility	Target Start Date	Target Finish Date	Start Duration	Finish Duration	Actual Finish Date	Duration in Calendar Days
Project Initiation	Sign Fee Schedule	State of Michigan /CitiStreet	7/4/07	7/15/07	88	77		11
	Sweep Letter	State of Michigan /CitiStreet	7/4/07	7/15/07	88	77		11
	Remote Access Agreement	State of Michigan /CitiStreet	7/4/07	7/15/07	88	77		11
	Accruals	State of Michigan /CitiStreet	7/4/07	7/15/07	88	77		11
	Class Action Acceptance Form	State of Michigan /CitiStreet	7/4/07	7/15/07	88	77		11
<b>Finalized Work Plan</b>								
Develop and deliver first draft of State of Michigan Requirements Analysis		CitiStreet	6/12/07	6/20/07	110	103		7
Provide plan comments, based upon current plan document vs. changes to the plan discussed via the State of Michigan Requirements Analysis, to project team and State of Michigan		Compliance/Legal	6/12/07	6/20/07	110	103		7
Final decisions on the investment options and fund provisions		State of Michigan	6/23/07	6/27/07	99	96		4
State of Michigan approves requirements		State of Michigan	6/23/07	6/27/07	99	96		4
CitiStreet internal requirements walk-through		CitiStreet	6/23/07	7/4/07	99	88		11
State of Michigan requirements walk-through		State of Michigan	6/23/07	7/4/07	99	88		11
Received signed Service & Trust Agreement		CitiStreet	6/23/07	7/4/07	99	88		11
Ensure all agreements are negotiated and executed, as applicable		CitiStreet	7/15/07	7/19/07	77	73		4
<b>Project Plan</b>								
Develop project plan		All	6/16/07	6/20/07	107	103		4
Review project plan		All	6/20/07	7/1/07	103	92		11
Finalize project plan		CitiStreet	6/23/07	7/1/07	99	92		7
Setup Project Teams		All	6/23/07	7/1/07	99	92		7
Begin weekly conference calls		All	6/23/07	10/1/07	99	0		99
Begin preparing weekly status report		CitiStreet	6/23/07	10/1/07	99	0		99
<b>Trust/Custodial Conversion</b>								
Review pricing method and timing of new funds		CitiStreet/Trust	6/27/07	7/1/07	96	92		4
Begin coding of data transfer		CitiStreet/Trust	7/8/07	8/17/07	85	44		40
Unit testing of data transfer		CitiStreet/Trust	8/17/07	9/8/07	44	22		22

Project Initiation	Responsibility	Target Start Date	Target Finish Date	Start Duration	Finish Duration	Actual Finish Date	Duration in Calendar Days
Full data transfer system testing	CitiStreet/Trust	9/8/07	9/19/07	22	11		11
<b>State of Michigan Conference Call Test Data Conversion</b>							
Send request of test data to State of Michigan; schedule conference call to discuss required data	CitiStreet	6/16/07	6/17/07	107	105		1
Code and unit test mapping programs	CitiStreet	7/8/07	7/19/07	85	73		11
Conduct conference call with State of Michigan to review test & reconciliation findings/questions/missing information	State of Michigan /CitiStreet	7/30/07	8/3/07	62	59		4
Conduct requirements spec walk-through	CitiStreet	7/1/07	7/8/07	92	85		7
Execute tests	CitiStreet	7/19/07	7/30/07	73	62		11
Finalize existing plan cutoff dates (last day for participant to submit any trades from/to old funds and date new funds effective)	CitiStreet/State of Michigan	6/23/07	6/27/07	99	96		4
Prepare/provide test reports	CitiStreet	7/29/07	7/30/07	63	62		1
Review and approve test data results	State of Michigan /CitiStreet	8/3/07	8/6/07	59	55		4
<b>Participant Communications</b>							
Identify audiences and messages to be communicated and source for mailing	State of Michigan /Communication	8/3/07	8/3/07	59	59		1
Review Communication Strategy document	All	7/30/07	8/1/07	62	61		1
Provide comments on Communication Strategy	All	8/1/07	8/3/07	61	59		2
Prepare Communications Campaign Strategy document	Communication	7/15/07	7/30/07	77	62		15
Forward mailing labels to Communications for mailing	CitiStreet	8/6/07	8/10/07	55	51		4
Finalized Communication dates and production schedule	State of Michigan /Communication	8/3/07	8/3/07	59	59		1
State of Michigan sign-off on Communication Strategy	State of Michigan	8/3/07	8/4/07	59	57		1
Mail Announcement/enhancement Post Card	Communication	8/14/07	8/17/07	48	44		4
Send the fund fact sheet to the ECommerce team to add to the State of Michigan website.	CitiStreet	8/28/07	9/8/07	33	22		11
Sign off/release enhancement Brochure	State of Michigan	8/14/07	8/17/07	48	44		4
Mail Announcement/enhancement Brochures	Communication	8/14/07	8/17/07	48	44		4
Mail letter to Participant	Communication	8/14/07	8/17/07	48	44		4
Sign off on web copy	State of Michigan	8/14/07	8/17/07	48	44		4
Sign off/release enhancement Reminder Postcard	State of Michigan	8/14/07	8/17/07	48	44		4
Sign off/release Enrollment Kit	State of Michigan	8/14/07	8/17/07	48	44		4
Mail enhancement Reminder Postcard	Communication	8/14/07	8/17/07	48	44		4

Project/Initiation	Responsibility	Target Start Date	Target Finish Date	Start Duration	Finish Duration	Actual Finish Date	Duration in Calendar Days
Delivery of Enrollment Kit and components	Communication	8/14/07	8/17/07	48	44		4
<b>Plan/Definition &amp; Design</b>							
Update transaction eligibility grid (status matrix)	CitiStreet	7/12/07	7/12/07	88	81		7
Set Up Omni regions	CitiStreet	7/14/07	7/12/07	88	81		7
Update database extract requirements	CitiStreet	7/14/07	7/12/07	88	81		7
Update calculators, text files, and validates	CitiStreet	7/14/07	7/12/07	88	81		7
Update transaction builder formats	CitiStreet	7/14/07	7/12/07	88	81		7
Update functional design document	CitiStreet	7/14/07	7/12/07	88	81		7
Conduct functional design walk-through	CitiStreet	7/14/07	7/12/07	88	81		7
Revise functional design document	CitiStreet	7/18/07	7/15/07	85	77		7
	CitiStreet	7/12/07	7/23/07	81	70		11
<b>System Development &amp; Unit Testing - Website/Participant Service Representative Work Station</b>							
WEB/PSR programming, unit testing	All	6/27/07	7/14/07	96	88		7
Develop internet site manager messages, target messages & home page messages	CitiStreet	6/27/07	7/12/07	96	81		15
Review messages with State of Michigan	CitiStreet	7/12/07	7/15/07	81	77		4
Finalize all messages on website	CitiStreet	7/15/07	7/19/07	77	73		4
State of Michigan approval of messages	All	7/19/07	7/19/07	73	73		0
Ready for system test	CitiStreet	7/20/07	7/20/07	72	72		0
Coordinate phone training prior to live date	All	9/8/07	9/16/07	22	15		7
<b>System Development &amp; Unit Testing - Interactive Voice Response</b>							
Review messaging with State of Michigan	State of Michigan /CitiStreet	7/15/07	7/19/07	77	73		4
IVR programming, unit testing	CitiStreet	7/23/07	8/10/07	70	51		18
Record voice segments	CitiStreet	7/26/07	7/30/07	66	62		4
IVR ready for system testing	All	8/6/07	8/10/07	55	51		4
<b>System Development &amp; Unit Testing - Payroll Transmissions Interface</b>							
Conduct conference call to review payroll procedures including data communications, timing, data flows, layouts and any custom requirements	State of Michigan /CitiStreet	7/14/07	7/18/07	88	85		4
Provide State of Michigan with changes and/or additions to CitiStreet feedback requirements & review with State of Michigan	State of Michigan /CitiStreet	7/14/07	7/18/07	88	85		4
State of Michigan approved interface document	State of Michigan	7/18/07	7/19/07	85	83		1

Project Initiation	Responsibility	Target Start Date	Target Finish Date	Start Duration	Finish Duration	Actual Finish Date	Duration in Calendar Days
Development & unit testing - Demographic, Contributions	CitiStreet	7/30/07	8/10/07	62	51		11
Begin exchanging test transmission files (inbound and outbound)	State of Michigan /CitiStreet	7/30/07	8/10/07	62	51		11
Review/approve interface testing results	State of Michigan /CitiStreet	8/10/07	8/17/07	51	44		7
Move programs to production	CitiStreet	9/19/07	9/25/07	11	5		6
<b>Pricing &amp; Trading</b>							
Receive the fund fee information for Trustee and Investment Management Fees	State of Michigan /CitiStreet	8/28/07	9/8/07	33	22		11
Determine and confirm how fund fees are deducted (from fund vs. Trust)	State of Michigan /Invest. Manager	8/28/07	9/8/07	33	22		11
Pricing	CitiStreet	8/17/07	8/28/07	44	33		11
Extract user exit	CitiStreet	8/28/07	9/8/07	33	22		11
Supplemental Transbuilder	CitiStreet	8/28/07	9/8/07	33	22		11
Periodic programs functional walkthrough	CitiStreet	8/28/07	9/8/07	33	22		11
Establish new DCS fund account and sends new DDA and Trust Account Number to Implementation Services	Trust						
If utilized fund, establish the first fund price	State of Michigan /CitiStreet	9/8/07	9/16/07	22	15		7
Receive the new fund DDA number from Trust	Trust	9/8/07	9/16/07	22	15		7
Determine Pricing and Trading procedures	CitiStreet/PT	9/8/07	9/16/07	22	15		7
Complete Fund Information Table	CitiStreet	9/8/07	9/16/07	22	15		7
Periodic programs setup and unit testing	CitiStreet	9/8/07	9/12/07	22	18		4
Reporting	CitiStreet	9/16/07	9/19/07	15	11		4
Add investment records fund to all EARs plan	CitiStreet	9/20/07	9/25/07	10	5		5
Add EARs records: 1) Trust Records 2) Agent Records 3) Fund Link Records 4) Price control Records 5) Category Tolerance Records	CitiStreet	9/20/07	9/25/07	10	5		5
Review & approve test result	CitiStreet	9/23/07	9/28/07	7	2		5
Submit estimated trading totals to Trading Services to send to new fund managers	CitiStreet	9/27/07	9/29/07	4	1		2
Begin receive the new fund pricing	CitiStreet	9/30/07	9/30/07	1	1		1
IS QC of new fund price for three consecutive trade dates after live date	CitiStreet	10/1/07	10/2/07	0	-1		1
<b>Confirmations/Statements/Forms</b>							

Project/Initiation	Responsibility	Target Start Date	Target Finish Date	Start Duration	Finish Duration	Actual Finish Date	Duration in Calendar Days
Review existing participant administrative forms, cover letter, confirmations, quarterly statement and determine which forms, confirms and statement will be necessary to change.	State of Michigan /CitiStreet	7/4/07	7/15/07	88	77		11
Review confirmation and quarterly participant statement layouts and messaging with State of Michigan	State of Michigan /CitiStreet	7/4/07	7/15/07	88	77		11
Edit confirmations	CitiStreet	7/15/07	7/26/07	77	66		11
Online Statement changes	CitiStreet	9/8/07	9/19/07	22	11		11
Change Participant forms	CitiStreet	7/15/07	7/26/07	77	66		11
Revise & update layouts	CitiStreet	7/15/07	7/26/07	77	66		11
Test data & format with IT confirms team	CitiStreet	7/15/07	7/26/07	77	66		11
Revise & update forms	CitiStreet	7/15/07	7/26/07	77	66		11
Obtain State of Michigan & internal sign-off	State of Michigan /CitiStreet	7/15/07	7/26/07	77	66		11
Review Participant forms with State of Michigan	State of Michigan /CitiStreet	7/15/07	7/26/07	77	66		11
Update Online Statement Product Setup	CitiStreet	9/8/07	9/19/07	22	11		11
Products Live	CitiStreet	9/30/07	9/30/07	1	1		1
<b>Participant Service Center</b>							
Deliver Phone Rep training	PSR Group	7/26/07	8/6/07	66	55		11
Edit and deliver PSR HELP file	PSR Group	7/26/07	8/6/07	66	55		11
CSR begin inquiry, enhancement and plan features calls	PSR Group	8/17/07	8/28/07	44	33		11
<b>CitiStreet Testing - Acceptance - VR, Web and Confirmations</b>							
Set up test populations	CitiStreet	8/17/07	8/21/07	44	40		4
Develop acceptance test plan	CitiStreet	8/17/07	8/21/07	44	40		4
Revise & debug programs	CitiStreet	8/21/07	9/5/07	40	26		15
Ready for acceptance test	CitiStreet	9/8/07	9/8/07	22	22		0
Regression Testing	CitiStreet	9/8/07	9/16/07	22	15		7
<b>State of Michigan Testing - Acceptance - VR, Web and Confirmations</b>							
Provide State of Michigan test guidelines notebook	CitiStreet	9/8/07	9/16/07	22	15		7

Project Initiation	Responsibility	Target Start Date	Target Finish Date	Start Duration	Finish Duration	Actual Finish Date	Duration in Calendar Days
Provide test conditions	CitiStreet	9/8/07	9/16/07	22	15		7
State of Michigan testing gridline walkthrough	CitiStreet	9/16/07	9/19/07	15	11		4
Execute test plan, provide feedback to PM	State of Michigan	9/16/07	9/19/07	15	11		4
Provide feedback on testing/retest	State of Michigan	9/19/07	9/24/07	11	7		4
Review & approve acceptance test results	State of Michigan	9/24/07	9/25/07	7	5		1
<b>enhancement to Production</b>							
Prepare migration to production checklist	CitiStreet	9/28/07	9/29/07	2	1		1
Move all programs to production	CitiStreet	9/30/07	9/30/07	1	1		1
<b>Production Testing - Production</b>							
IS Production testing with Acceptance test plan	CitiStreet	9/30/07	9/30/07	1	1		1
Run sample Participant online and paper statements to ensure assets were transferred correctly	CitiStreet	9/30/07	10/1/07	1	-1		1
Live processing at CitiStreet begins	CitiStreet	10/1/07	10/1/07	0	0		1
<b>Post Conversion Activities</b>							
First daily cycle	CitiStreet	9/30/07	9/30/07	1	1		1



Article 1, Attachment F – Reserved





## **Article 2 – General Terms and Conditions**

### **2.010 Contract Structure and Administration**

#### **2.011 Definitions**

Capitalized terms used in this Contract (including its Exhibits) shall have the meanings given below, unless the context requires otherwise:

- (a) "Days" means calendar days unless otherwise specified.
- (b) "24x7x365" means 24 hours a day, seven days a week, and 365 days a year (including the 366th day in a leap year).
- (c) "Additional Service" means any Services/Deliverables within the scope of the Contract, but not specifically provided under any Statement of Work, that once added will result in the need to provide the Contractor with additional consideration. "Additional Service" does not include New Work.
- (d) Reserved.
- (e) "Audit Period" has the meaning given in **Section 2.111**.
- (f) "Business Day," whether capitalized or not, shall mean any day other than a Saturday, Sunday or State-recognized legal holiday (as identified in the Collective Bargaining Agreement for State employees) from 8:00am EST through 5:00pm EST unless otherwise stated.
- (g) "Incident" means any interruption in Services.
- (h) "Business Critical" means any function identified in any Statement of Work as Business Critical.
- (i) "Deliverable" means physical goods and/or commodities as required or identified by a Statement of Work
- (j) "Key Personnel" means any Personnel designated in **Article 1, Section 1.201 and/or Attachment B**, as Key Personnel.
- (k) "New Work" means any Services/Deliverables outside the scope of the Contract and not specifically provided under any Statement of Work, that once added will result in the need to provide the Contractor with additional consideration. "New Work" does not include Additional Service.
- (l) "Services" means any function performed for the benefit of the State.
- (m) "State Location" means any physical location where the State performs work. State Location may include state-owned, leased, or rented space.
- (n) "Subcontractor" means a company Contractor delegates performance of a portion of the Services to, but does not include independent contractors engaged by Contractor solely in a staff augmentation role.
- (o) "Work in Process" means a Deliverable that has been partially prepared, but has not been presented to the State for Approval.

#### **2.012 Attachments and Exhibits**

All Attachments and/or Exhibits attached to any, and all Statement(s) of Work, attached to, or referencing this Contract, are incorporated in their entirety into, and form part of, this Contract.

#### **2.013 Statements of Work**

- (a) The parties agree that the Services/Deliverables to be rendered by Contractor pursuant to this Contract (and any future amendments of it) will be defined and described in detail in Statements of Work or Purchase Orders (PO) executed under this Contract. Contractor shall not be obliged or authorized to commence any work to implement a Statement of Work until authorized via a PO issued against this Contract, or an amendment to this Contract (see 2.106). Contractor shall perform in accordance with this Contract, including the Statements of Work/Purchase Orders executed under it.
- (b) Unless otherwise agreed by the parties, each Statement of Work (as defined in Article 1) will include, or incorporate by reference to the appropriate Contract Article 1 Attachment containing, the following information:
  - a description of the Services to be performed by Contractor under the Statement of Work;
  - a project schedule (including the commencement and completion dates for all tasks, subtasks (for all projects of sufficient duration and complexity to warrant sub task breakdown), and Deliverables;
  - a list of the Deliverables to be provided, if any, including any particular specifications and acceptance criteria for such Deliverables, and the dates on which the Deliverables are scheduled to be completed and delivered to the State;
  - all Deliverable price schedules and other charges associated with the Statement of Work, the overall fixed price for such Statement of Work and any other appropriate pricing and payment terms;



- a specification of Contractor's and the State's respective performance responsibilities with respect to the performance or completion of all tasks, subtasks and Deliverables;
- a listing of any Key Personnel of Contractor and/or its Subcontractors for that Statement of Work and any future Statements of Work;
- any other information or provisions the parties agree to include.

(c) Reserved.

(d) The initial Statements of Work, as of the Effective Date, are attached to this Contract.

#### 2.014 Issuing Office

This Contract is issued by the Department of Management and Budget, Purchasing Operations ("DMB-PURCHOPS") and Office of (collectively, including all other relevant State of Michigan departments and agencies, the "State"). DMB-PURCHOPS is the sole point of contact in the State with regard to all procurement and contractual matters relating to the Contract. **DMB-PURCHOPS is the only State office authorized to change, modify, amend, alter or clarify the prices, specifications, terms and conditions of this Contract.** The Contractor Administrator within Purchasing Operations for this Contract is:

Jim Wilson  
Purchasing Operations  
Department of Management and Budget  
Mason Bldg, 2nd Floor  
PO Box 30026  
Lansing, MI 48909  
Email: wilsonj4@michigan.gov  
Phone: 517-241-1916

#### 2.015 Contract Compliance Inspector

Upon receipt at DMB-PURCHOPS of the properly executed Contract, it is anticipated that the Director of DMB Purchasing Operations, in consultation with (insert the end using agency), will direct that the person named below, or any other person so designated, be authorized to monitor and coordinate the activities for the Contract on a day-to-day basis during its term. However, monitoring of this Contract implies **no authority to change, modify, clarify, amend, or otherwise alter the prices, terms, conditions and specifications of such Contract as that authority is retained by Purchasing Operations.** The Contract Compliance Inspector for this Contract is:

Brian Mclane  
Workforce Development & Retirement Administration  
PO Box 30171  
Lansing, MI 48909  
Email: mclaneb@michigan.gov  
Phone: 517-332-1926

#### 2.016 Project Manager - Reserved

2.020 Contract Objectives/Scope/Background

#### 2.021 Background - Reserved

#### 2.022 Purpose - Reserved

#### 2.023 Objectives and Scope - Reserved

#### 2.024 Interpretation - Reserved

#### 2.025 Form, Function and Utility

If the Contract is for use of more than one (1) State agency and if the Deliverable/Service does not meet the form, function, and utility required by that State agency, that agency may, subject to State purchasing policies, procure the Deliverable/Service from another source.

2.030 Legal Effect and Term**2.031 Legal Effect**

Except as otherwise agreed in writing by the parties, the State assumes no liability for costs incurred by Contractor or payment under this Contract, until Contractor is notified in writing that this Contract (or Change Order) has been approved by the State Administrative Board (if required), approved and signed by all the parties, and a Purchase Order against the Contract has been issued.

**2.032 Contract Term**

This Contract is for a period of five (5) years from approximately October 1, 2007 through September 30, 2012. All outstanding Purchase Orders shall also expire upon the termination (cancellation for any of the reasons listed in 2.210) of the Contract, unless otherwise extended pursuant to the Contract. Absent an early termination for any reason, Purchase Orders issued but not expired, by the end of the Contract's stated term, will remain in effect for the balance of the fiscal year for which they were issued.

**2.033 Renewal(s)**

This Contract may be renewed in writing by mutual agreement of the parties not less than 30 days before its expiration. The Contract may be renewed for up to two (2) additional one (1) year periods. Successful completion of negotiations surrounding the terms of the extension, will be a pre-requisite for the exercise of any option year.

2.040 Contractor Personnel**2.041 Contractor Personnel**

- (a) Personnel Qualifications. All persons assigned by Contractor to the performance of Services under this Contract shall be employees of Contractor or its majority-owned (directly or indirectly, at any tier) subsidiaries (or a State-approved Subcontractor) and shall be fully qualified to perform the work assigned to them. Contractor shall include a similar provision in any subcontract entered into with a Subcontractor. For the purposes of this Contract, independent contractors engaged by Contractor solely in a staff augmentation role shall be treated by the State as if they were employees of Contractor for this Contract only; however, the State understands that the relationship between Contractor and Subcontractor is an independent contractor relationship.
- (b) Key Personnel
  - (i) In discharging its obligations under this Contract, Contractor shall provide the named Key Personnel on the terms indicated. **Article 1, Attachment B** provides an organization chart showing the roles of certain Key Personnel, if any.
  - (ii) Key Personnel shall be dedicated as defined in **Article 1, Attachment B** to the Project for its duration in the applicable Statement of Work with respect to other individuals designated as Key Personnel for that Statement of Work.
  - (iii) The State will have the right to recommend and approve in writing the initial assignment, as well as any proposed reassignment or replacement, of any Key Personnel. Before assigning an individual to any Key Personnel position, Contractor will notify the State of the proposed assignment, will introduce the individual to the appropriate State representatives, and will provide the State with a resume and any other information about the individual reasonably requested by the State. The State reserves the right to interview the individual before granting written approval. In the event the State finds a proposed individual unacceptable, the State will provide a written explanation including reasonable detail outlining the reasons for the rejection. Additionally, the State's request shall be based on legitimate, good-faith reasons. Proposed alternative for the individual denied, shall be fully qualified for the position.
  - (iv) Contractor shall not remove any Key Personnel from their assigned roles or the Contract without the prior written consent of the State. If the Contractor does remove Key Personnel without the prior written consent of the State, it shall be considered an unauthorized removal ("Unauthorized Removal"). It shall not be considered an Unauthorized Removal if Key Personnel must be replaced for reasons beyond the reasonable control of Contractor, including illness, disability, leave of absence, personal emergency circumstances, resignation or for cause termination of the Key Personnel's employment. It shall not be considered an Unauthorized Removal if Key Personnel must be replaced because of promotions or other job movements allowed by Contractor personnel policies or Collective Bargaining Agreement(s) as long as the State receives prior written notice before shadowing occurs and Contractor provides 30 days of shadowing unless parties agree to a different time period. The Contractor with the State shall review any Key Personnel replacements, and appropriate transition planning will be established. Any Unauthorized



Removal may be considered by the State to be a material breach of the Contract, in respect of which the State may elect to exercise its rights under **Section 2.210**.

- (v) It is acknowledged that an Unauthorized Removal will interfere with the timely and proper completion of the Contract, to the loss and damage of the State, and that it would be impracticable and extremely difficult to fix the actual damage sustained by the State as a result of any Unauthorized Removal. Therefore, Contractor and the State agree that in the case of any Unauthorized Removal in respect of which the State does not elect to exercise its rights under **Section 2.210**, the State may assess liquidated damages against Contractor as specified in Section 2.073.
- (c) Re-assignment of non-Key Personnel. Prior to re-deploying to other projects, at the completion of their assigned tasks on the Project, teams of its non-Key Personnel who are performing Services on-site at State facilities or who are otherwise dedicated primarily to the Project, Contractor will give the State at least 10 Business Days notice of the proposed re-deployment to give the State an opportunity to object to the re-deployment if the State reasonably believes such team's Contract responsibilities are not likely to be completed and approved by the State prior to the proposed date of re-deployment.
- (d) Re-assignment of Personnel at the State's Request. The State reserves the right to require the removal from the Project of Contractor personnel found, in the judgment of the State, to be unacceptable. The State's request shall be written with reasonable detail outlining the reasons for the removal request. Additionally, the State's request shall be based on legitimate, good-faith reasons. Replacement personnel for the removed person shall be fully qualified for the position. If the State exercises this right, and the Contractor cannot immediately replace the removed personnel, the State agrees to an equitable adjustment in schedule or other terms that may be affected by the State's required removal. If any such incident with removed personnel results in delay not reasonable anticipatable under the circumstances and which is attributable to the State, the applicable SLAs for the affected Service will not be counted in **Section 2.076** for a time as agreed to by the parties.
- (e) Staffing Levels.
  - (i) All staff requirements not specified in the applicable Statement of Work or State-approved project plan as State personnel will be supplied by Contractor. This includes secretarial, clerical and Contract administration support staff necessary for Contractor to perform its obligations hereunder.
  - (ii) Contractor shall provide sufficient personnel resources for the completion of Contract tasks indicated in Contractor's project plan approved by the State. If the level of personnel resources is insufficient to complete any Contractor Contract tasks in accordance with the Contract time schedule as demonstrated by Contractor's failure to meet mutually agreed to time schedules, Contractor shall promptly add additional qualified personnel resources to the performance of the affected tasks, at no additional charge to the State, in an amount sufficient to complete performance of Contractor's tasks in accordance with the Contract time schedule.
- (f) Personnel Turnover. The Parties agree that it is in their best interests to keep the turnover rate of employees of Contractor and its Subcontractors who are performing the Services to a reasonable minimum. Accordingly, if the State determines that the turnover rate of such employees is excessive and so notifies Contractor, Contractor will meet with the State to discuss the reasons for the turnover rate and otherwise use commercially reasonable efforts to minimize such turnover rate. If requested to do so by the State, Contractor will submit to the State its proposals for reducing the turnover rate to an acceptable level. In any event, notwithstanding the turnover of personnel, Contractor remains obligated to perform the Services without degradation and in accordance with the State-approved Contract schedule.
- (g) Location. All staff assigned by Contractor to work on the Contract will perform their duties either primarily at Contractor's offices and facilities or at State facilities. Without limiting the generality of the foregoing, Key Personnel will, at a minimum, spend at least the amount of time on-site at State facilities as indicated in the applicable Statement of Work. Subject to availability, selected Contractor personnel may be assigned office space to be shared with State personnel.

#### **2.042 Contractor Identification**

Contractor employees shall be clearly identifiable while on State property by wearing a State-issued badge, as required. Contractor employees are required to clearly identify themselves and the company they work for whenever making contact with State personnel by telephone or other means.

#### **2.043 Cooperation with Third Parties**



Contractor agrees to cause its personnel and the personnel of any Subcontractors to cooperate with the State and its agents and other contractors including the State's Quality Assurance personnel, and, as reasonably requested by the State, to provide to the State's agents and other contractors with reasonable access to Contractor's Project personnel, systems and facilities to the extent they relate to activities specifically associated with this Contract and will not interfere or jeopardize the safety or operation of the systems or facilities and provided Contractor receives reasonable prior written notice of such request. The State acknowledges that Contractor's time schedule for the Contract is very specific and agrees not to unnecessarily or unreasonably interfere with, delay or otherwise impeded Contractor's performance under this Contract with such requests for access.

#### **2.044 Subcontracting by Contractor**

- (a) Contractor shall have full responsibility for the successful performance and completion of all of the Services and Deliverables. The State will consider Contractor to be the sole point of contact with regard to all contractual matters under this Contract, including payment of any and all charges for Services and Deliverables.
- (b) Contractor shall not delegate any duties under this Contract to a Subcontractor unless the Department of Management and Budget, Purchasing Operations has given written consent to such delegation. The State shall have the right of prior written approval of all Subcontractors and to require Contractor to replace any Subcontractors found, in the reasonable judgment of the State, to be unacceptable. The State's request shall be written with reasonable detail outlining the reasons for the removal request. Additionally, the State's request shall be based on legitimate, good-faith reasons. Replacement Subcontractor(s) for the removed Subcontractor shall be fully qualified for the position. If the State exercises this right, and the Contractor cannot immediately replace the removed Subcontractor, the State will agree to an equitable adjustment in schedule or other terms that may be affected by the State's required removal. If any such incident with a removed Subcontractor results in delay not reasonable anticipatable under the circumstances and which is attributable to the State, the applicable SLAs for the affected Work will not be counted in **Section 2.076** for a time agreed upon by the parties.
- (c) In any subcontracts entered into by Contractor for the performance of the Services, Contractor shall require the Subcontractor, to the extent of the Services to be performed by the Subcontractor, to be bound to Contractor by the terms of this Contract and to assume toward Contractor all of the obligations and responsibilities that Contractor, by this Contract, assumes toward the State. The State reserves the right to receive copies of and review all subcontracts, although Contractor may delete or mask any proprietary information, including pricing, contained in such contracts before providing them to the State. The management of any Subcontractor will be the responsibility of Contractor, and Contractor shall remain responsible for the performance of its Subcontractors to the same extent as if Contractor had not subcontracted such performance. Contractor shall make all payments to Subcontractors or suppliers of Contractor. Except as otherwise agreed in writing by the State and Contractor, the State will not be obligated to direct payments for the Services other than to Contractor. The State's written approval of any Subcontractor engaged by Contractor to perform any obligation under this Contract shall not relieve Contractor of any obligations or performance required under this Contract. Attached to the Contract is a list of the Subcontractors, if any, approved by the State as of the execution of this Contract, together with a copy of the applicable subcontract.
- (d) Except where specifically approved in writing by the State on a case-by-case basis, Contractor shall flow down the obligations in **Sections 2.040, 2.110, 2.150, 2.160, 2.171(c), 2.172(b), 2.180, 2.260, 2.276, 2.297** in all of its agreements with any Subcontractors.
- (e) The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the Contract.

#### **2.045 Contractor Responsibility for Personnel**

Contractor shall be responsible for all acts and omissions of its employees, as well as the acts and omissions of any other personnel furnished by Contractor to perform the Services.

##### 2.050 State Standards

#### **2.051 Existing Technology Standards**

The Contractor will adhere to all existing standards as described within the comprehensive listing of the State's existing technology standards at [http://www.michigan.gov/dit/0,1607,7-139-30639\\_30655---,00.html](http://www.michigan.gov/dit/0,1607,7-139-30639_30655---,00.html).

#### **2.052 PM Methodology Standards - Reserved**



**2.053 Adherence to Portal Technology Tools**

The State has adopted the following tools for its Portal Technology development efforts:

- Vignette Content Management and personalization Tool
- Inktomi Search Engine
- E-Pay Payment Processing Module
- Websphere Commerce Suite for e-Store applications

Unless otherwise stated, Contractor must use the Portal Technology Tools to implement web content management and deployment efforts. Tools used for web-based application development must work in conjunction with Vignette and Inktomi. The interaction with Vignette and Inktomi must be coordinated with DIT, Enterprise Application Services Office, e-Michigan Web Development team.

Contractors that are compelled to use alternate tools must have received an exception from DIT, Enterprise Application Services Office, e-Michigan Web Development team, before this Contract is effective.

**2.054 Acceptable Use Policy**

To the extent that Contractor has access to the State computer system, Contractor must comply with the State's Acceptable Use Policy, see <http://www.michigan.gov/dit/service/0,1607,7-179-25781-73760--,00.html>. All Contractor employees must be required, in writing, to agree to the State's Acceptable Use Policy before accessing the State system. The State reserves the right to terminate Contractor's access to the State system if a violation occurs.

2.060 Deliverables**2.061 Ordering**

Any Services/Deliverables to be furnished under this Contract shall be ordered by issuance of written Purchase Orders/Blanket Purchase Order by the State after approval by the Contract Administrator or his/her designee. All orders are subject to the terms and conditions of this Contract. In the event of conflict between an order and this Contract, the Contract shall take precedence as stated in **Section 2.293**. In no event shall any additional terms and conditions contained on a Purchase Order/Blanket Purchase Order be applicable, unless specifically contained in that Purchase Order/Blanket Purchase Order's accompanying Statement of Work.

**2.062 Software – Reserved****2.063 Hardware - Reserved****2.064 Equipment to be New and Prohibited Products - Reserved**2.070 Performance**2.071 Performance, In General**

The State engages Contractor to execute the Contract and perform the Services/provide the Deliverables, and Contractor undertakes to execute and complete the Contract in its entirety in accordance with the terms and conditions of this Contract and with the participation of State representatives as specified in this Contract.

**2.072 Time of Performance**

- Contractor shall use commercially reasonable efforts to provide the resources necessary to complete all Services and Deliverables in accordance with the time schedules contained in the Statements of Work and other Exhibits governing the work, and with professional quality.
- Without limiting the generality of **Section 2.072(a)**, Contractor shall notify the State in a timely manner upon becoming aware of any circumstances that may reasonably be expected to jeopardize the timely and successful completion of any Deliverables/Services on the scheduled due dates in the latest State-approved delivery schedule and, in such event, shall inform the State of the projected actual delivery date.
- If Contractor believes that a delay in performance by the State has caused or will cause Contractor to be unable to perform its obligations in accordance with specified Contract time periods, Contractor shall notify the State in a timely manner and shall use commercially reasonable efforts to perform its obligations in accordance with such Contract time periods notwithstanding the State's failure. Contractor will not be in default for a delay in performance to the extent such delay is caused by the State.

**2.073 Liquidated Damages**

The parties acknowledge that the events listed below will interfere with the timely and proper completion of the Contract, to the loss and damage of the State, and that it would be impracticable and extremely difficult to fix the actual damage sustained by the State as a result of any such delay. Therefore, Contractor and the State agree that in the case of any such events in respect of which the State does not elect to exercise its rights under **Section 2.191**, the State may assess liquidated damages against Contractor as specified below:

- a) In the event that the TPA is unable to provide participant services as of the date agreed to and documented in the approved conversion plan, the TPA must pay liquidated damages of \$10,000 per day unless the delay is solely caused by the former recordkeeper or by the State. Liquidated damages are not a penalty, are cumulative, and represent a reasonable estimate of the State's extra costs and damages, which are difficult to estimate with accuracy in advance.
- b) Personnel conducting seminars shall be properly licensed (Series 6 and 63 exams at a minimum) with all required regulatory agencies to discuss plan provisions, investment concepts and retirement planning considerations. If the TPA fails to adhere to this provision, the TPA will remove the individual in question and pay a \$1,000 per occurrence penalty.
- c) For the Unauthorized Removal of any Key Personnel designated in the applicable Statement of Work, the liquidated damages amount shall be \$25,000.00 per individual provided Contractor identifies a replacement approved by the State pursuant to **Section 2.041** and assigns the replacement to the Project to shadow the Key Personnel s/he is replacing for a period of at least 30 days prior to such Key Personnel's removal. If Contractor fails to assign a replacement to shadow the removed Key Personnel for at least 30 days, in addition to the \$25,000.00 liquidated damages for an Unauthorized Removal, Contractor shall pay the amount of \$833.33 per day for each day of the 30 day shadow period that the replacement Key Personnel does not shadow the removed Key Personnel, up to \$25,000.00 maximum per individual. The total liquidated damages that may be assessed per Unauthorized Removal and failure to provide 30 days of shadowing shall not exceed \$50,000.00 per individual.

**2.074 Bankruptcy**

If Contractor shall file for protection under the bankruptcy laws, or if an involuntary petition shall be filed against Contractor and not removed within 30 days, or if the Contractor becomes insolvent, be adjudicated bankrupt, or if it should make a general assignment for the benefit of creditors, or if a receiver shall be appointed due to its insolvency, and Contractor and/or its affiliates are unable to provide reasonable assurances that Contractor and/or its affiliates can deliver the services provided herein, the State may, without prejudice to any other right or remedy, terminate this Contract, in whole or in part, and, at its option, may take possession of the "Work in Process" and finish such Works in Process by whatever appropriate method the State may deem expedient. Contractor will fix appropriate notices or labels on the Work in Process to indicate ownership by the State. To the extent reasonably possible, materials and Work in Process shall be stored separately from other stock and marked conspicuously with labels indicating ownership by the State.

To secure the State's progress payments before the delivery of any services or materials required for the execution of Contractor's obligations hereunder, and any work which Contractor may subcontract in the support of the performance of its obligations hereunder, title shall vest in the State to the extent the State has made progress payments hereunder.

**2.075 Time is of the Essence - Reserved****2.076 Service Level Agreements (SLAs) - Reserved**2.080 Delivery and Acceptance of Deliverables**2.081 Delivery Responsibilities - Reserved****2.082 Delivery of Deliverables**

Where applicable, the Statements of Work/POs contain lists of the Deliverables to be prepared and delivered by Contractor including, for each Deliverable, the scheduled delivery date and a designation of whether the Deliverable is a document ("Written Deliverable"), a good ("Physical Deliverable") or a Service. All Deliverables shall be completed and delivered for State review and written approval and, where applicable, installed in accordance with the State-approved delivery schedule and any other applicable terms and conditions of the Contract.

**2.083 Testing**





- (a) Prior to delivering any of the above-mentioned Statement of Work Physical Deliverables or Services to the State, Contractor will first perform all required quality assurance activities to verify that the Physical Deliverable or Service is complete and in conformance with its specifications listed in the applicable Statement of Work or Purchase Order. Before delivering a Physical Deliverable or Service to the State, Contractor shall certify to the State that (1) it has performed such quality assurance activities, (2) it has performed any applicable testing, (3) it has corrected all material deficiencies discovered during such quality assurance activities and testing, (4) the Deliverable or Service is in a suitable state of readiness for the State's review and approval, and (5) the Deliverable/Service has all Critical Security patches/updates applied.
- (b) If a Deliverable includes installation at a State Location, then Contractor shall (1) perform any applicable testing, (2) correct all material deficiencies discovered during such quality assurance activities and testing, and (3) inform the State that the Deliverable is in a suitable state of readiness for the State's review and approval. To the extent that testing occurs at State Locations, the State shall be entitled to observe or otherwise participate in testing.

#### **2.084 Approval of Deliverables, In General**

- (a) All Deliverables (Physical Deliverables and Written Deliverables) and Services require formal written approval by the State, in accordance with the following procedures. Formal approval by the State requires that the Deliverable be confirmed in writing by the State to meet its specifications, which will include the successful completion of Testing as applicable in **Section 2.083**, to be led by the State with the support and assistance of Contractor. The parties acknowledge that the approval process set forth herein will be facilitated by ongoing consultation between the parties, visibility of interim and intermediate Deliverables and collaboration on key decisions.
- (b) The State's obligation to comply with any State Review Period is conditioned on the timely delivery of Deliverables/Services being reviewed.
- (c) Prior to commencement of its review or testing of a Deliverable/Service, the State may inspect the Deliverable/Service to confirm that all components of the Deliverable/Service have been delivered without material deficiencies. If the State determines that the Deliverable/Service has material deficiencies, the State may refuse delivery of the Deliverable/Service without performing any further inspection or testing of the Deliverable/Service. Otherwise, the review period will be deemed to have started on the day the State receives the Deliverable or the Service begins, and the State and Contractor agree that the Deliverable/Service is ready for use and, where applicable, certification by Contractor in accordance with **Section 2.083(a)**.
- (d) The State will approve in writing a Deliverable/Service upon confirming that it conforms to and, performs in accordance with, its specifications without material deficiency. The State may, but shall not be required to, conditionally approve in writing a Deliverable/Service that contains material deficiencies if the State elects to permit Contractor to rectify them post-approval. In any case, Contractor will be responsible for working diligently to correct within a reasonable time at Contractor's expense all deficiencies in the Deliverable/Service that remain outstanding at the time of State approval.
- (e) If, after three (3) opportunities (the original and two repeat efforts), Contractor is unable to correct all deficiencies preventing Final Acceptance of a Deliverable/Service, the State may: (i) demand that Contractor cure the failure and give Contractor additional time to cure the failure at the sole expense of Contractor; or (ii) keep the Contract in force and do, either itself or through other parties, whatever Contractor has failed to do, in which event Contractor shall bear any excess expenditure incurred by the State in so doing beyond the Contract price for such Deliverable/Service and will pay the State an additional sum equal to 10% of such excess expenditure to cover the State's general expenses provided the State can furnish proof of such general expenses; or (iii) terminate the particular Statement of Work for default, either in whole or in part by notice to Contractor provided Contractor is unable to cure such breach. Notwithstanding the foregoing, the State shall not use, as a basis for exercising its termination rights under this Section, deficiencies discovered in a repeat State Review Period that could reasonably have been discovered during a prior State Review Period.
- (f) The State, at any time and in its reasonable discretion, may halt the testing or approval process if such process reveals deficiencies in or problems with a Deliverable/Service in a sufficient quantity or of a sufficient severity as to make the continuation of such process unproductive or unworkable. In such case, the State may stop using the Service or return the applicable Deliverable to Contractor for correction and re-delivery prior to resuming the testing or approval process.

#### **2.085 Process For Approval of Written Deliverables - Reserved**

**2.086 Process for Approval of Services**

The State Review Period for approval of Services is governed by the applicable Statement of Work (failing which the State Review Period, by default, shall be 30 Business Days for Services). The State agrees to notify Contractor in writing by the end of the State Review Period either stating that the Service is approved in the form delivered by Contractor or describing any deficiencies that must be corrected prior to approval of the Services (or at the State's election, subsequent to approval of the Service). If the State delivers to Contractor a notice of deficiencies, Contractor will correct the described deficiencies and within 30 Business Days resubmit the Service in a form that shows all revisions made to the original version delivered to the State. Contractor's correction efforts will be made at no additional charge. Upon implementation of a corrected Service from Contractor, the State will have a reasonable additional period of time, not to exceed the length of the original State Review Period, to review the corrected Service for conformity and that the identified deficiencies have been corrected.

**2.087 Process for Approval of Physical Deliverables - Reserved****2.088 Final Acceptance - Reserved**2.090 Financial**2.091 Pricing - Reserved****2.092 Invoicing and Payment Procedures and Terms - Reserved****2.093 State Funding Obligation- Reserved****2.094 Holdback - Reserved****2.095 Electronic Payment Availability**

Public Act 533 of 2004 requires that payments under this contract be processed by electronic funds transfer (EFT). Contractor is required to register to receive payments by EFT at the Contract & Payment Express website ([www.cpexpress.state.mi.us](http://www.cpexpress.state.mi.us)).

2.100 Contract Management**2.101 Contract Management Responsibility**

- (a) Contractor shall have overall responsibility for managing and successfully performing and completing the Services/Deliverables, subject to the overall direction and supervision of the State and with the participation and support of the State as specified in this Contract. Contractor's duties will include monitoring and reporting the State's performance of its participation and support responsibilities (as well as Contractor's own responsibilities) and providing timely notice to the State in Contractor's reasonable opinion if the State's failure to perform its responsibilities in accordance with **Article 1, Attachment E** (Project Plan) is likely to delay the timely achievement of any Contract tasks.
- (b) The Services/Deliverables will be provided by the Contractor either directly or through its affiliates, subsidiaries, subcontractors or resellers. Regardless of the entity providing the Service/Deliverable, the Contractor will act as a single point of contact coordinating these entities to meet the State's need for Services/Deliverables. Nothing in this Contract, however, shall be construed to authorize or require any party to violate any applicable law or regulation in its performance of this Contract.

**2.102 Problem and Contract Management Procedures - Reserved****2.103 Reports and Meetings - Reserved****2.104 System Changes**

Contractor is not responsible for and not authorized to make changes to any State systems without written authorization from the State. Any changes Contractor makes to State systems with the State's approval shall be done in accordance with applicable State procedures, including security, access and configuration management procedures.

**2.105 Reserved****2.106 Change Requests**



The State reserves the right to request from time to time, any changes to the requirements and specifications of the Contract and the work to be performed by the Contractor under the Contract. During the course of ordinary business, it may become necessary for the State to discontinue certain business practices or create Additional Services/Deliverables. At a minimum, to the extent applicable, the State would like the Contractor to provide a detailed outline of all work to be done, including tasks necessary to accomplish the services/deliverables, timeframes, listing of key personnel assigned, estimated hours for each individual per task, and a complete and detailed cost justification.

If the State requests or directs the Contractor to perform any Services/Deliverables that are outside the scope of the Contractor's responsibilities under the Contract ("New Work"), the Contractor must notify the State promptly, and before commencing performance of the requested activities, that it believes the requested activities are New Work. If the Contractor fails to notify the State before commencing performance of the requested activities, any such activities performed before notice is given by the Contractor shall be conclusively considered to be in-scope Services/Deliverables, not New Work.

If the State requests or directs the Contractor to perform any services or provide deliverables that are consistent with and similar to the Services/Deliverables being provided by the Contractor under the Contract, but which the Contractor reasonably and in good faith believes are not included within the Statements of Work, then before performing such services or providing such deliverables, the Contractor shall notify the State in writing that it considers the services or deliverables to be an Additional Service/Deliverable for which the Contractor should receive additional compensation. If the Contractor does not so notify the State, the Contractor shall have no right to claim thereafter that it is entitled to additional compensation for performing that service or providing that deliverable. If the Contractor does so notify the State, then such a service or deliverable shall be governed by the Change Request procedure in this Section.

In the event prices or service levels are not acceptable to the State, the Additional Services or New Work shall be subject to competitive bidding based upon the specifications.

The following process will be followed for Change Requests:

- (a) **State Requests**  
If the State should require Contractor to perform New Work, Additional Services or make changes to the Services that would affect the Contract completion schedule or the amount of compensation due Contractor (a "Change"), the State shall submit a written request for Contractor to furnish a proposal for carrying out the requested Change (a "Change Request").
- (b) **Contractor Recommendations**  
Contractor shall be entitled to propose a Change to the State, on its own initiative, should it be of the opinion that this would benefit the Contract.
- (c) **Upon receipt of a Change Request or on its own initiative, Contractor shall examine the implications of the requested Change on the technical specifications, Contract schedule and price of the Deliverables and Services and shall submit to the State without undue delay a written proposal for carrying out the Change. Contractor's proposal will include any associated changes in the technical specifications, Contract schedule and price and method of pricing of the Services. If the Change is to be performed on a time and materials basis, the Amendment Labor Rates shall apply to the provision of such Services.**

If Contractor provides a written proposal and should Contractor be of the opinion that a requested Change is not to be recommended, it shall communicate its opinion to the State but shall nevertheless carry out the Change as specified in the written proposal if the State directs it to do so.

- (d) **By giving Contractor written notice within a reasonable time, the State shall be entitled to accept a Contractor proposal for Change, to reject it or to reach another agreement with Contractor. Should the parties agree on carrying out a Change, a written Contract Change Notice shall be prepared and issued under this Contract, describing the Change and its effects on the Services and any affected components of this Contract (a "Contract Change Notice").**
- (e) **No proposed Change shall be performed until the proposed Change has been specified in a duly executed Contract Change Notice issued by the Department of Management and Budget, Purchasing Operations.**
- (f) **If the State requests or directs Contractor to perform any activities that Contractor believes constitute a Change, Contractor must notify the State that it believes the requested activities are a Change prior to commencing the performance of the requested activities. If Contractor fails to so notify the State prior to commencing performance of the requested activities, such activities shall be considered to be performed gratuitously by Contractor, and Contractor shall not have any right thereafter to assert any claim for additional compensation or time for the performance of such activities. If Contractor commences performance of gratuitous services outside the scope of this Contract and subsequently elects to stop performing such out-of-scope services, Contractor must, at the**



request of the State, back out or reverse any changes resulting from such performance that would adversely affect the Contract.

## **2.107 Management Tools – Reserved**

### 2.110 Records and Inspections

#### **2.111 Records and Inspections**

(a) Inspection of Work Performed.

The State's authorized representatives shall at all reasonable times and with 10 days prior written request, have the right to enter Contractor's premises, or any other places, where the Services are being performed, and shall have access, upon reasonable request, to interim drafts of Deliverables or work-in-progress. Upon 10 Days prior written notice and at all reasonable times, the State's representatives shall be allowed to inspect, monitor, or otherwise evaluate the work being performed and to the extent that such access will not reasonably interfere or jeopardize the safety or operation of the systems or facilities. Contractor must provide all reasonable facilities and assistance for the State's representatives.

(b) Examination of Records.

Contractor agrees that the State, including its duly authorized representatives, until the expiration of seven (7) years following the creation of the material (collectively, the "Audit Period"), shall, upon 20 days prior written notice, have access to and the right to examine and copy any of Contractor's books, records, documents and papers pertinent to establishing Contractor's compliance with the Contract and with applicable laws and rules, including the State's procurement rules, regulations and procedures, and actual performance of the Contract for the purpose of conducting an audit, examination, excerpt and/or transcription but the State shall not have access to any information deemed confidential to Contractor to the extent such access would require such confidential information to become publicly available. This provision also applies to the books, records, accounts, documents and papers, in print or electronic form, of any parent, affiliated or subsidiary organization of Contractor, or any Subcontractor of Contractor performing services in connection with the Contract.

(c) Retention of Records.

Contractor shall maintain at least until the end of the Audit Period all pertinent financial and accounting records (including time sheets and payroll records, and information pertaining to the Contract and to the Services, equipment, and commodities provided under the Contract) pertaining to the Contract in accordance with generally accepted accounting principles and other procedures specified in this Section. Financial and accounting records shall be made available, upon request, to the State at any time during the Audit Period. If an audit, litigation, or other action involving Contractor's records is initiated before the end of the Audit Period, the records must be retained until all issues arising out of the audit, litigation, or other action are resolved or until the end of the Audit Period, whichever is later.

(d) Audit Resolution.

If necessary, the Contractor and the State shall meet to review each audit report promptly after issuance. The Contractor will respond to each audit report in writing within 30 days from receipt of such report, unless a shorter response time is specified in such report. The Contractor and the State shall develop, agree upon and monitor an action plan to promptly address and resolve any deficiencies, concerns, and/or recommendations in such audit report.

#### **2.112 Errors**

(a) If the audit demonstrates any errors in the statements provided to the State, then the amount in error shall be reflected as a credit or debit on the next invoice and in subsequent invoices until the amount is paid or refunded in full. However, a credit or debit may not be carried for more than four (4) quarterly statements. If a balance remains after four (4) quarterly statements, then the remaining amount will be due as a payment or refund within 45 days of the last quarterly statement that the balance appeared on or termination of the contract, whichever is earlier.

(b) In addition to other available remedies, the difference between the payment received and the correct payment amount is greater than 10%, then the Contractor shall pay all of the reasonable costs of the audit.

### 2.120 State Responsibilities

#### **2.121 State Performance Obligations**

(a) Equipment and Other Resources. To facilitate Contractor's performance of the Services/Deliverables, the State shall provide to Contractor such equipment and resources as identified in the Statements of Work or other Contract Exhibits as items to be provided by the State.



- (b) Facilities. The State shall designate space as long as it is available and as provided in the Statement of Work, to house Contractor's personnel whom the parties agree will perform the Services/Deliverables at State facilities (collectively, the "State Facilities"). Contractor shall have reasonable access to, and unless agreed otherwise by the parties in writing shall observe and comply with all rules and regulations relating to, each of the State Facilities (including hours of operation) used by Contractor in the course of providing the Services. Contractor agrees that it will not, without the prior written consent of the State, use any State Facilities or access any State information systems provided for Contractor's use, or to which Contractor otherwise gains access in the course of performing the Services, for any purpose other than providing the Services to the State.
- (c) Return. Contractor shall be responsible for returning to the State any State-furnished equipment, facilities and other resources when no longer required for the Contract in the same condition as when provided by the State, reasonable wear and tear excepted.
- (d) Except as otherwise provided in **Section 2.220**, the State's failure to perform its responsibilities as set forth in this Contract shall not be deemed to be grounds for termination by Contractor. However, Contractor will not be liable for any default or delay in the performance of its obligations under this Contract to the extent such default or delay is caused by nonperformance of the State's obligations under this Contract, provided Contractor provides the State with reasonable written notice of such nonperformance and Contractor uses commercially reasonable efforts to perform notwithstanding the State's failure to perform. In addition, if the State's nonperformance of its responsibilities under this Contract materially increases the time required for Contractor's performance or Contractor's cost of performance, Contractor shall be entitled to seek an equitable extension via the Change Request process described in **Section 2.106**.

#### 2.130 Security

##### **2.131 Background Checks**

The Contractor shall authorize the investigation of its personnel proposed to have access to State facilities and systems on a case by case basis. The scope of the background check is at the discretion of the State and the results will be used to determine Contractor personnel eligibility for working within State facilities and systems. Such investigations will include Michigan State Police Background checks (ICHAT) and may include the National Crime Information Center (NCIC) Finger Prints. Proposed Contractor personnel may be required to complete and submit an RI-8 Fingerprint Card for the NCIC Finger Print Check. Any request for background checks will be initiated by the State and will be reasonably related to the type of work requested.

All Contractor personnel will also be expected to comply with the State's security and acceptable use policies for State IT equipment and resources. See <http://www.michigan.gov/ditsservice/0,1607,7-179-25781-73760--,00.html>. Furthermore, Contractor personnel will be expected to agree to the State's security and acceptable use policies before the Contractor personnel will be accepted as a resource to perform work for the State. It is expected the Contractor will present these documents to the prospective employee before the Contractor presents the individual to the State as a proposed resource. Contractor staff will be expected to comply with all Physical Security procedures in place within the facilities where they are working.

#### 2.140 Reserved

#### 2.150 Confidentiality

##### **2.151 Freedom of Information**

All information in any proposal submitted to the State by Contractor and this Contract is subject to the provisions of the Michigan Freedom of Information Act, 1976 Public Act No. 442, as amended, MCL 15.231, et seq (the "FOIA").

##### **2.152 Confidentiality**

Contractor and the State each acknowledge that the other possesses and will continue to possess confidential information that has been developed or received by it. As used in this Section, "Confidential Information" of Contractor shall mean all non-public proprietary information of Contractor (other than Confidential Information of the State as defined below) which is marked confidential, restricted, proprietary or with a similar designation. "Confidential Information" of the State shall mean any information which is retained in confidence by the State (or otherwise required to be held in confidence by the State pursuant to applicable federal, state and local laws and regulations) or which, in the case of tangible materials provided to Contractor by the State pursuant to its performance under this Contract, is marked as confidential, proprietary or with a similar designation by the State. In the case of information of either Contractor or the State "Confidential Information" shall exclude any information (including this Contract) that is publicly available pursuant to the Michigan FOIA.



**2.153 Protection of Confidential Information**

The State and Contractor will each use at least the same degree of care to prevent disclosing to third parties the Confidential Information of the other as it employs to avoid unauthorized disclosure, publication or dissemination of its own confidential information of like character, but in no event less than reasonable care. Neither Contractor nor the State will (i) make any use of the Confidential Information of the other except as contemplated by this Contract, (ii) acquire any right in or assert any lien against the Confidential Information of the other, or (iii) if requested to do so, refuse for any reason to promptly return the other party's Confidential Information to the other party. Each party will limit disclosure of the other party's Confidential Information to employees and Subcontractors who must have access in order to fulfill the purposes of this Contract. Disclosure to, and use by, a Subcontractor is permissible where (A) use of a Subcontractor is authorized under this Contract, (B) such disclosure is necessary or otherwise naturally occurs in connection with work that is within such Subcontractor's scope of responsibility, and (C) Contractor obligates the Subcontractor in a written Contract to maintain the State's Confidential Information in confidence. At the State's request, any employee of Contractor and of any Subcontractor having access or continued access to the State's Confidential Information may be required to execute an acknowledgment that the employee has been advised of Contractor's and the Subcontractor's obligations under this Section and of the employee's obligation to Contractor or Subcontractor, as the case may be, to protect such Confidential Information from unauthorized use or disclosure.

**2.154 Exclusions**

Notwithstanding the foregoing, the provisions of this Section will not apply to any particular information which the State or Contractor can demonstrate (i) was, at the time of disclosure to it, in the public domain; (ii) after disclosure to it, is published or otherwise becomes part of the public domain through no fault of the receiving party; (iii) was in the possession of the receiving party at the time of disclosure to it without an obligation of confidentiality; (iv) was received after disclosure to it from a third party who had a lawful right to disclose such information to it without any obligation to restrict its further disclosure; or (v) was independently developed by the receiving party without reference to Confidential Information of the furnishing party. Further, the provisions of this Section will not apply to any particular Confidential Information to the extent the receiving party is required by law to disclose such Confidential Information, provided that the receiving party (i) promptly provides the furnishing party with notice of the legal request, and (ii) assists the furnishing party in resisting or limiting the scope of such disclosure as reasonably requested by the furnishing party.

**2.155 No Implied Rights**

Nothing contained in this Section shall be construed as obligating a party to disclose any particular Confidential Information to the other party, or as granting to or conferring on a party, expressly or impliedly, any right or license to the Confidential Information of the other party.

**2.156 Remedies**

Each party acknowledges that, if it breaches (or attempts or threatens to breach) its obligations under this Section, the other party may be irreparably harmed. Accordingly, if a court of competent jurisdiction should find that a party has breached (or attempted or threatened to breach) any such obligations, the non-breaching party shall be entitled to seek an injunction preventing such breach (or attempted or threatened breach).

**2.157 Security Breach Notification**

In the event of a breach of this Section, Contractor shall take (i) prompt corrective action to cure any such deficiencies and (ii) any action pertaining to such unauthorized disclosure required by applicable federal and state laws and regulations. Contractor and the State will cooperate to mitigate, to the extent practicable, the effects of any breach, intrusion, or unauthorized use or disclosure. Contractor shall report to the State in writing any use or disclosure of Confidential Information, whether suspected or actual, other than as provided for by the Contract within ten (10) days of becoming aware of such use or disclosure or such shorter time period as is reasonable under the circumstances.

**2.158 Survival**

The parties' respective obligations under this Section shall survive the termination or expiration of this Contract for any reason.

**2.159 Destruction of Confidential Information**

Promptly upon termination or cancellation of the Contract for any reason, Contractor shall certify to the State that Contractor has destroyed all State Confidential Information.

2.160 Proprietary Rights**2.161 Ownership**



**Ownership of Work Product by State.** All Deliverables shall be owned by the State and shall be considered works made for hire by the Contractor for the State. The State shall own all United States and international copyrights, trademarks, patents or other proprietary rights in the Deliverables.

#### **2.162 Source Code Escrow - Reserved**

#### **2.163 Rights in Data**

- (a) The State will be and remain the owner of all data made available by the State to Contractor or its agents, Subcontractors or representatives pursuant to the Contract. Contractor will not use the State's data for any purpose other than providing the Services, nor will any part of the State's data be disclosed, sold, assigned, leased or otherwise disposed of to the general public or to specific third parties or commercially exploited by or on behalf of Contractor, nor will any employee of Contractor other than those on a strictly need to know basis have access to the State's data. Contractor will not possess or assert any lien or other right against the State's data.

Without limiting the generality of this Section, Contractor shall only use personally identifiable information as strictly necessary to provide the Services and shall disclose such information only to its employees who have a strict need to know such information. Contractor shall comply at all times with all laws and regulations applicable to such personally identifiable information.

- (b) The State is and shall remain the owner of all State-specific data pursuant to the Contract. The State may use the data provided by the Contractor for any purpose. The State will not possess or assert any lien or other right against the Contractor's data. Without limiting the generality of this Section, the State shall only use personally identifiable information as strictly necessary to utilize the Services and shall disclose such information only to its employees who have a strict need to know such information, except as provided by law. The State shall comply at all times with all laws and regulations applicable to such personally identifiable information. Other material developed and provided to the State shall remain the State's sole and exclusive property.

#### **2.164 Ownership of Materials**

State and Contractor will continue to own their respective proprietary technologies developed before entering into the Contract. Any hardware bought through the Contractor by the State, and paid for by the State, will be owned by the State. Any software licensed through the Contractor and sold to the State, will be licensed directly to the State.

#### **2.165 Standard Software**

If applicable and necessary, all Standard Software used in performing the Services shall be provided to the State under a separate license agreement between the State and the owner (or authorized licensor) of such software.

#### **2.166 Pre-existing Materials for Custom Software Deliverables**

Neither Contractor nor any of its Subcontractors shall incorporate any preexisting materials (including Standard Software) into Custom Software Deliverables or use any pre-existing materials to produce Custom Software Deliverables if such pre-existing materials will be needed by the State in order to use the Custom Software Deliverables unless (i) such pre-existing materials and their owners are identified to the State in writing and (ii) such pre-existing materials are either readily commercially available products for which Contractor or its Subcontractor, as the case may be, has obtained a license (in form and substance approved by the State) in the name of the State, or are materials that Contractor or its Subcontractor, as the case may be, has the right to license to the State and has licensed to the State on terms and conditions approved by the State prior to using such pre-existing materials to perform the Services.

#### **2.167 General Skills**

Notwithstanding anything to the contrary in this Section, each party, its Subcontractors and their personnel shall be free to use and employ its and their general skills, know-how and expertise, and to use, disclose and employ any generalized ideas, concepts, know-how, methods, techniques or skills gained or learned during the course of performing the Services, so long as it or they acquire and apply the foregoing without disclosure of any confidential or proprietary information of the other party.

#### 2.170 Warranties And Representations

#### **2.171 Warranties and Representations**

The Contractor represents and warrants:





- (a) It is capable in all respects of fulfilling and shall fulfill all of its obligations under this Contract. The performance of all obligations under this Contract shall be provided in a timely, professional, and workman-like manner and shall meet the performance and operational standards required under this Contract.
- (b) The Contract Appendices, Attachments and Exhibits identify the equipment and software and services necessary for the Deliverable(s) to perform and Services to operate in compliance with the Contract's requirements and other standards of performance.
- (c) It is the lawful owner or licensee of any Deliverable licensed or sold to the State by Contractor or developed by Contractor under this Contract, and Contractor has all of the rights necessary to convey to the State the ownership rights or licensed use, as applicable, of any and all Deliverables. None of the Deliverables provided by Contractor to the State under this Contract, nor their use by the State, will infringe the patent, copyright, trade secret, or other proprietary rights of any third party.
- (d) If, under this Contract, Contractor procures any equipment, software or other Deliverable for the State (including equipment, software and other Deliverables manufactured, re-marketed or otherwise sold by Contractor under Contractor's name), then in addition to Contractor's other responsibilities with respect to such items in this Contract, Contractor shall assign or otherwise transfer to the State or its designees, or afford the State the benefits of, any manufacturer's warranty for the Deliverable.
- (e) The contract signatory has the power and authority, including any necessary corporate authorizations, necessary to enter into this Contract, on behalf of Contractor.
- (f) It is qualified and registered to transact business in all locations where required.
- (g) Neither the Contractor nor any Affiliates, nor any employee of either, has, shall have, or shall acquire, any contractual, financial, business, or other interest, direct or indirect, that would conflict in any manner or degree with Contractor's performance of its duties and responsibilities to the State under this Contract or otherwise create an appearance of impropriety with respect to the award or performance of this Agreement. Contractor shall notify the State within two (2) days of any such interest that may be incompatible with the interests of the State.
- (h) Neither Contractor nor any Affiliates, nor any employee of either has accepted or shall accept anything of value based on an understanding that the actions of the Contractor or Affiliates or employee on behalf of the State would be influenced. Contractor shall not attempt to influence any State employee by the direct or indirect offer of anything of value.
- (i) Neither Contractor nor any Affiliates, nor any employee of either has paid or agreed to pay any person, other than bona fide employees and consultants working solely for Contractor or such Affiliate, any fee, commission, percentage, brokerage fee, gift, or any other consideration, contingent upon or resulting from the award or making of this Contract.
- (j) The prices proposed by Contractor were arrived at independently, without consultation, communication, or agreement with any other Contractor for the purpose of restricting competition; the prices quoted were not knowingly disclosed by Contractor to any other Contractor; and no attempt was made by Contractor to induce any other person to submit or not submit a proposal for the purpose of restricting competition.
- (k) All financial statements, reports, and other information furnished by Contractor to the State as part of its response to the CONTRACT or otherwise in connection with the award of this Contract fairly and accurately represent the business, properties, financial condition, and results of operations of Contractor as of the respective dates, or for the respective periods, covered by such financial statements, reports, other information. Since the respective dates or periods covered by such financial statements, reports, or other information, there have been no material adverse change in the business, properties, financial condition, or results of operations of Contractor.
- (l) All written information furnished to the State by or behalf of Contractor in connection with this Contract, including its bid, is true, accurate, and complete, and contains no untrue statement of material fact or omits any material fact necessary to make such information not misleading.
- (m) It is not in material default or breach of any other contract or agreement that it may have with the State or any of its departments, commissions, boards, or agencies. Contractor further represents and warrants that it has not been a party to any contract with the State or any of its departments that was terminated by the State or such



department within the previous five (5) years for the reason that Contractor failed to perform or otherwise breached an obligation of such contract.

#### 2.172 Software Warranties - Reserved

#### 2.173 Equipment Warranty - Reserved

#### 2.174 Physical Media Warranty - Reserved

#### 2.175 Standard Warranties - Reserved

#### 2.176 Consequences For Breach

In addition to any remedies available in law, if the Contractor breaches any of the warranties contained in this section, such breach may be considered as a default in the performance of a material obligation of this Contract.

#### 2.180 Insurance

#### 2.181 Liability Insurance

##### (a) Liability Insurance

The Contractor is required to provide proof of the minimum levels of insurance coverage as indicated below. The purpose of this coverage shall be to protect the State from claims which may arise out of or result from the Contractor's performance of services under the terms of this Contract, whether such services are performed by the Contractor, or by any subcontractor, or by anyone directly or indirectly employed by any of them, or by anyone for whose acts they may be liable.

The Contractor waives all rights against the State of Michigan, its departments, divisions, agencies, offices, commissions, officers, employees and agents for recovery of damages to the extent these damages are covered by the insurance policies the Contractor is required to maintain pursuant to this Contract.

All insurance coverages provided relative to this Contract/Purchase Order are PRIMARY and NON-CONTRIBUTING to any comparable liability insurance (including self-insurances) carried by the State.

The insurance shall be written for not less than any minimum coverage specified in this Contract or required by law, whichever is greater.

The insurers selected by Contractor shall have an A.M. Best rating of A or better, or as otherwise approved in writing by the State, or if such ratings are no longer available, with a comparable rating from a recognized insurance rating agency. All policies of insurance required in this Contract shall be issued by companies that have been approved to do business in the State.

See [http://www.mi.gov/cis/0,1607,7-154-10555\\_22535---,00.html](http://www.mi.gov/cis/0,1607,7-154-10555_22535---,00.html).

Where specific limits are shown, they are the minimum acceptable limits. If Contractor's policy contains higher limits, the State shall be entitled to coverage to the extent of such higher limits.

Before the Contract is signed by both parties or before the purchase order is issued by the State, the Contractor must furnish to the Director of Purchasing Operations, certificate(s) of insurance verifying insurance coverage ("Certificates"). The Certificate must be on the standard "accord" form or equivalent. **THE CONTRACT OR PURCHASE ORDER NO. MUST BE SHOWN ON THE CERTIFICATE OF INSURANCE TO ASSURE CORRECT FILING.** All Certificate(s) are to be prepared and submitted by the Insurance Provider. All Certificate(s) shall contain a provision indicating that coverages afforded under the policies WILL NOT BE CANCELLED, MATERIALLY CHANGED, OR NOT RENEWED without 30 days prior written notice, except for 10 days for non-payment of premium, having been given to the Director of Purchasing Operations, Department of Management and Budget. The notice must include the Contract or Purchase Order number affected and be mailed to: Director, Purchasing Operations, Department of Management and Budget, P.O. Box 30026, Lansing, Michigan 48909. Failure to provide evidence of coverage, may, at the State's sole option, result in this Contract's termination.

The Contractor is required to pay for and provide the type and amount of insurance checked ☒ below:

- ☒ 1. Commercial General Liability with the following minimum coverage:



\$2,000,000 General Aggregate Limit other than Products/Completed Operations  
\$2,000,000 Products/Completed Operations Aggregate Limit  
\$1,000,000 Personal & Advertising Injury Limit  
\$1,000,000 Each Occurrence Limit  
\$500,000 Fire Damage Limit (any one fire)

The Contractor must list the State of Michigan, its departments, divisions, agencies, offices, commissions, officers, employees and agents as ADDITIONAL INSURED on the Commercial General Liability certificate. The Contractor also agrees to provide evidence that insurance policies contain a waiver of subrogation by the insurance company.

☒ 2. If a motor vehicle is used to provide services or products under this Contract, the Contractor must have vehicle liability insurance on any auto including owned, hired and non-owned vehicles used in Contractor's business for bodily injury and property damage as required by law.

The Contractor must list the State of Michigan, its departments, divisions, agencies, offices, commissions, officers, employees and agents as ADDITIONAL INSURED on the vehicle liability certificate. The Contractor also agrees to provide evidence that insurance policies contain a waiver of subrogation by the insurance company.

☒ 3. Workers' compensation coverage must be provided in accordance with applicable laws governing the employees and employers work activities in the state of the Contractor's domicile. If the applicable coverage is provided by a self-insurer, proof must be provided of approved self-insured authority by the jurisdiction of domicile. For employees working outside of the state of qualification, Contractor must provide appropriate certificates of insurance proving mandated coverage levels for the jurisdictions where the employees' activities occur.

Any certificates of insurance received must also provide a list of states where the coverage is applicable.

The Contractor also agrees to provide evidence that insurance policies contain a waiver of subrogation by the insurance company. This provision shall not be applicable where prohibited or limited by the laws of the jurisdiction in which the work is to be performed.

☒ 4. Employers liability insurance with the following minimum limits:  
\$100,000 each accident  
\$100,000 each employee by disease  
\$500,000 aggregate disease

☒ 5. Employee Fidelity, including Computer Crimes, insurance naming the State as a loss payee, providing coverage for direct loss to the State and any legal liability of the State arising out of or related to fraudulent or dishonest acts committed by the employees of Contractor or its Subcontractors, acting alone or in collusion with others, in a minimum amount of one million dollars (\$1,000,000.00) with a maximum deductible of fifty thousand dollars (\$50,000.00).

☒ 6. Umbrella or Excess Liability Insurance in a minimum amount of ten million dollars (\$10,000,000.00), which shall apply, at a minimum, to the insurance required in Subsection 1 (Commercial General Liability) above.

☒ 7. Professional Liability (Errors and Omissions) Insurance with the following minimum coverage: three million dollars (\$3,000,000.00) each occurrence and three million dollars (\$3,000,000.00) annual aggregate.

☐ 8. Fire and Personal Property Insurance covering against any loss or damage to the office space used by Contractor for any reason under this Contract, and the equipment, software and other contents of such office space, including without limitation, those contents used by Contractor to provide the Services to the State, up to the replacement value thereof, where such office space and its contents are under the care, custody and control of Contractor. Such policy shall cover all risks of direct physical loss or damage, including without limitation, flood and earthquake coverage and coverage for computer hardware and software. The State shall be endorsed on the policy as a loss payee as its interests appear.

(b) Subcontractors

Except where the State has approved in writing a Contractor subcontract with other insurance provisions, Contractor shall require all of its Subcontractors under this Contract to purchase and maintain the insurance coverage as described in this Section for the Contractor in connection with the performance of work by those Subcontractors. Alternatively, Contractor may include any Subcontractors under Contractor's insurance on the coverage required in this Section. Subcontractor(s)



shall fully comply with the insurance coverage required in this Section. Failure of Subcontractor(s) to comply with insurance requirements does not limit Contractor's liability or responsibility.

(c) **Certificates of Insurance and Other Requirements**

Contractor shall furnish to Purchasing Operations certificate(s) of insurance verifying insurance coverage or providing satisfactory evidence of self-insurance as required in this Section (the "Certificates"). Before the Contract is signed, and not less than 20 days before the insurance expiration date every year thereafter, the Contractor shall provide evidence that the State and its agents, officers and employees are listed as additional insureds under each commercial general liability and commercial automobile liability policy. In the event the State approves the representation of the State by the insurer's attorney, the attorney may be required to be designated as a Special Assistant Attorney General by the Attorney General of the State of Michigan.

Contractor shall maintain all required insurance coverage throughout the term of the Contract and any extensions thereto and, in the case of claims-made Commercial General Liability policies, shall secure tail coverage for at least three (3) years following the expiration or termination for any reason of this Contract. The minimum limits of coverage specified above are not intended, and shall not be construed, to limit any liability or indemnity of Contractor under this Contract to any indemnified party or other persons. Contractor shall be responsible for all deductibles with regard to such insurance. If Contractor fails to pay any premium for required insurance as specified in this Contract, or if any insurer cancels or significantly reduces any required insurance as specified in this Contract without the State's written consent, at the State's election (but without any obligation to do so) after the State has given Contractor at least 30 days written notice, the State may pay such premium or procure similar insurance coverage from another company or companies; and at the State's election, the State may deduct the entire cost (or part thereof) from any payment due Contractor, or Contractor shall pay the entire cost (or any part thereof) upon demand by the State.

2.190 Indemnification

**2.191 Indemnification**

(a) **General Indemnification**

To the extent permitted by law, the Contractor shall indemnify, defend and hold harmless the State from liability, including all claims and losses, and all related costs and expenses (including reasonable attorneys' fees and costs of investigation, litigation, settlement, judgments, interest and penalties), accruing or resulting to any person, firm or corporation that may be injured or damaged by the Contractor in the performance of this Contract and that are attributable to the negligence or tortious acts of the Contractor or any of its subcontractors, or by anyone else for whose acts any of them may be liable.

(b) **Code Indemnification**

To the extent permitted by law, the Contractor shall indemnify, defend and hold harmless the State from any claim, loss, or expense arising from Contractor's breach of the No Surreptitious Code Warranty.

(c) **Employee Indemnification**

In any and all claims against the State of Michigan, its departments, divisions, agencies, sections, commissions, officers, employees and agents, by any employee of the Contractor or any of its subcontractors, the indemnification obligation under the Contract shall not be limited in any way by the amount or type of damages, compensation or benefits payable by or for the Contractor or any of its subcontractors under worker's disability compensation acts, disability benefit acts or other employee benefit acts. This indemnification clause is intended to be comprehensive. Any overlap in provisions, or the fact that greater specificity is provided as to some categories of risk, is not intended to limit the scope of indemnification under any other provisions.

(d) **Patent/Copyright Infringement Indemnification**

To the extent permitted by law, the Contractor shall indemnify, defend and hold harmless the State from and against all losses, liabilities, damages (including taxes), and all related costs and expenses (including reasonable attorneys' fees and costs of investigation, litigation, settlement, judgments, interest and penalties) incurred in connection with any action or proceeding threatened or brought against the State to the extent that such action or proceeding is based on a claim that any piece of equipment, software, commodity or service supplied by the Contractor or its subcontractors, or the operation of such equipment, software, commodity or service,

or the use or reproduction of any documentation provided with such equipment, software, commodity or service infringes any United States patent, copyright, trademark or trade secret of any person or entity, which is enforceable under the laws of the United States.

In addition, should the equipment, software, commodity, or service, or its operation, become or in the State's or Contractor's opinion be likely to become the subject of a claim of infringement, the Contractor shall at the Contractor's sole expense (i) procure for the State the right to continue using the equipment, software, commodity or service or, if such



option is not reasonably available to the Contractor, (ii) replace or modify to the State's satisfaction the same with equipment, software, commodity or service of equivalent function and performance so that it becomes non-infringing, or, if such option is not reasonably available to Contractor, (iii) accept its return by the State with appropriate credits to the State against the Contractor's charges and reimburse the State for any losses or costs incurred as a consequence of the State ceasing its use and returning it.

Notwithstanding the foregoing, the Contractor shall have no obligation to indemnify or defend the State for, or to pay any costs, damages or attorneys' fees related to, any claim based upon (i) equipment developed based on written specifications of the State; or (ii) use of the equipment in a configuration other than implemented or approved in writing by the Contractor, including, but not limited to, any modification of the equipment by the State; or (iii) the combination, operation, or use of the equipment with equipment or software not supplied by the Contractor under this Contract.

## **2.192 Continuation of Indemnification Obligations**

The Contractor's duty to indemnify pursuant to this Section continues in full force and effect, notwithstanding the expiration or early cancellation of the Contract, with respect to any claims based on facts or conditions that occurred prior to expiration or cancellation.

## **2.193 Indemnification Procedures**

The procedures set forth below shall apply to all indemnity obligations under this Contract:

- (a) After receipt by the State of notice of the action or proceeding involving a claim in respect of which it will seek indemnification, the State shall promptly notify Contractor of such claim in writing and take or assist Contractor in taking, as the case may be, any reasonable action to avoid the imposition of a default judgment against Contractor. No failure to notify Contractor shall relieve Contractor of its indemnification obligations except to the extent that Contractor can demonstrate damages attributable to such failure. Within 10 days following receipt of written notice from the State relating to any claim, Contractor shall notify the State in writing whether Contractor agrees to assume control of the defense and settlement of that claim (a "Notice of Election"). After notifying Contractor of a claim and prior to the State receiving Contractor's Notice of Election, the State shall be entitled to defend against the claim, at Contractor's expense, and Contractor will be responsible for any reasonable costs incurred by the State in defending against the claim during such period.
- (b) If Contractor delivers a Notice of Election relating to any claim: (i) the State shall be entitled to participate in the defense of such claim and to employ counsel at its own expense to assist in the handling of such claim and to monitor and advise the State about the status and progress of the defense; (ii) Contractor shall, at the request of the State, demonstrate to the reasonable satisfaction of the State, Contractor's financial ability to carry out its defense and indemnity obligations under this Contract; (iii) Contractor shall periodically advise the State about the status and progress of the defense and shall obtain the prior written approval of the State before entering into any settlement of such claim or ceasing to defend against such claim and (iv) to the extent that any principles of Michigan governmental or public law may be involved or challenged, the State shall have the right, at its own expense, to control the defense of that portion of such claim involving the principles of Michigan governmental or public law. Notwithstanding the foregoing, the State may retain control of the defense and settlement of a claim by written notice to Contractor given within 10 days after the State's receipt of Contractor's information requested by the State pursuant to clause (ii) of this paragraph if the State determines that Contractor has failed to demonstrate to the reasonable satisfaction of the State Contractor's financial ability to carry out its defense and indemnity obligations under this Section. Any litigation activity on behalf of the State of Michigan, or any of its subdivisions pursuant to this Section, must be coordinated with the Department of Attorney General. In the event the insurer's attorney represents the State pursuant to this Section, the insurer's attorney may be required to be designated as a Special Assistant Attorney General by the Attorney General of the State of Michigan.
- (c) If Contractor does not deliver a Notice of Election relating to any claim of which it is notified by the State as provided above, the State shall have the right to defend the claim in such manner as it may deem appropriate, at the cost and expense of Contractor. If it is determined that the claim was one against which Contractor was required to indemnify the State, upon request of the State, Contractor shall promptly reimburse the State for all such reasonable costs and expenses.

### 2.200 Limits of Liability and Excusable Failure

#### **2.201 Limits of Liability**

The Contractor's liability for damages to the State shall be limited to two (2) times the value of the Contract which ever is higher. The foregoing limitation of liability shall not apply to claims for infringement of United States patent, copyright,





trademarks or trade secrets; to claims for personal injury or damage to property caused by the gross negligence or willful misconduct of the Contractor; to claims covered by other specific provisions of this Contract calling for liquidated damages; or to court costs or attorney's fees awarded by a court in addition to damages after litigation based on this Contract.

The State's liability for damages to the Contractor shall be limited to the value of the Contract.

Neither the Contractor nor the State shall be liable to each other, regardless of the form of action, for consequential, incidental, indirect, or special damages. This limitation of liability shall not apply to claims for infringement of United States patent, copyright, trademark or trade secrets; to claims for personal injury or damage to property caused by the gross negligence or willful misconduct of the Contractor; to claims covered by other specific provisions of this Contract calling for liquidated damages; or to court costs or attorney's fees awarded by a court in addition to damages after litigation based on this Contract.

## **2.202 Excusable Failure**

Neither party will be liable for any default, damage or delay in the performance of its obligations under the Contract to the extent such default, damage or delay is caused by government regulations or requirements (executive, legislative, judicial, military or otherwise), power failure, electrical surges or current fluctuations, lightning, earthquake, war, water or other forces of nature or acts of God, delays or failures of transportation, equipment shortages, suppliers' failures, or acts or omissions of common carriers, fire; riots, civil disorders; strikes or other labor disputes, embargoes; injunctions (provided the injunction was not issued as a result of any fault or negligence of the party seeking to have its default or delay excused); or any other cause beyond the reasonable control of such party; provided the non-performing party and its Subcontractors are without fault in causing such default or delay, and such default or delay could not have been prevented by reasonable precautions and cannot reasonably be circumvented by the non-performing party through the use of alternate sources, workaround plans or other means, including disaster recovery plans.

In such event, the non-performing party will be excused from any further performance or observance of the obligation(s) so affected for as long as such circumstances prevail and such party continues to use its commercially reasonable efforts to recommence performance or observance whenever and to whatever extent possible without delay and provided further that such party promptly notifies the other party in writing of the inception of the excusable failure occurrence, and also of its abatement or cessation.

If any of the above-enumerated circumstances substantially prevent, hinder, or delay Contractor's performance of the Services/provision of Deliverables for more than 10 Business Days, and the State determines that performance is not likely to be resumed within a period of time that is satisfactory to the State in its reasonable discretion, then at the State's option: (a) the State may procure the affected Services/Deliverables from an alternate source, and the State shall not be liable for payment for the unperformed Services/ Deliverables not provided under the Contract for so long as the delay in performance shall continue; (b) the State may terminate any portion of the Contract so affected and the charges payable there under shall be equitably adjusted to reflect those Services/Deliverables terminated; or (c) the State may terminate the affected Statement of Work without liability to Contractor as of a date specified by the State in a written notice of termination to Contractor, except to the extent that the State shall pay for Services/Deliverables provided through the date of termination.

Contractor will not have the right to any additional payments from the State as a result of any Excusable Failure occurrence or to payments for Services not rendered/Deliverables not provided as a result of the Excusable Failure condition. Defaults or delays in performance by Contractor which are caused by acts or omissions of its Subcontractors will not relieve Contractor of its obligations under the Contract except to the extent that a Subcontractor is itself subject to an Excusable Failure condition described above and Contractor cannot reasonably circumvent the effect of the Subcontractor's default or delay in performance through the use of alternate sources, workaround plans or other means.

## **2.203 Disaster Recovery**

Contractor and the State recognize that the State provides essential services in times of natural or man-made disasters. Therefore, except as so mandated by Federal disaster response requirements, Contractor personnel dedicated to providing Services/Deliverables under this Contract will provide the State with priority service for repair and work around in the event of a natural or manmade disaster.

### 2.210 Termination/Cancellation by the State

The State may terminate this Contract without further liability or penalty to the State, its departments, divisions, agencies, offices, commissions, officers, agents and employees for any of the following reasons:

**2.211 Termination for Cause**

- (a) In the event that Contractor breaches any of its material duties or obligations under this Contract (including a Chronic Failure to meet any particular SLA as defined in **Section 2.076**), which are either not capable of or subject to being cured, or are not cured within the time period specified in the written notice of breach provided by the State (such time period not to be less than 30 days), or pose a serious and imminent threat to the health and safety of any person, or the imminent loss, damage or destruction of any real or tangible personal property, the State may, having provided written notice of termination to Contractor, terminate this Contract in whole or in part, for cause, as of the date specified in the notice of termination.
- (b) In the event that this Contract is terminated for cause, in addition to any legal remedies otherwise available to the State by law or equity, Contractor shall be responsible for all costs incurred by the State in terminating this Contract, including but not limited to, State administrative costs, reasonable attorneys' fees and court costs, and any reasonable additional costs the State may incur to procure the Services/Deliverables required by this Contract from other sources. Re-procurement costs shall not be considered by the parties to be consequential, indirect or incidental damages, and shall not be excluded by any other terms otherwise included in this Contract, provided such costs are not in excess of 50% more than the prices for such Service/Deliverables provided under this Contract.
- (c) In the event the State chooses to partially terminate this Contract for cause, charges payable under this Contract will be equitably adjusted to reflect those Services/Deliverables that are terminated and the State shall pay for all Services/Deliverables for which Final Acceptance has been granted provided up to the termination date. Services and related provisions of this Contract that are terminated for cause shall cease on the effective date of the termination.
- (d) In the event this Contract is terminated for cause pursuant to this Section, and it is determined, for any reason, that Contractor was not in breach of contract pursuant to the provisions of this section, that termination for cause shall be deemed to have been a termination for convenience, effective as of the same date, and the rights and obligations of the parties shall be limited to that otherwise provided in this Contract for a termination for convenience.

**2.212 Termination for Convenience**

The State may terminate this Contract for its convenience, in whole or part, if the State determines that such a termination is in the State's best interest. Reasons for such termination shall be left to the sole discretion of the State and may include, but not necessarily be limited to (a) the State no longer needs the Services or products specified in the Contract, (b) relocation of office, program changes, changes in laws, rules, or regulations make implementation of the Services no longer practical or feasible, (c) unacceptable prices for Additional Services or New Work requested by the State, or (d) falsification or misrepresentation, by inclusion or non-inclusion, of information material to a response to any CONTRACT issued by the State.

The State may terminate this Contract for its convenience, in whole or in part, by giving Contractor written notice at least 30 days prior to the date of termination. If the State chooses to terminate this Contract in part, the charges payable under this Contract shall be equitably adjusted to reflect those Services/Deliverables that are terminated. Services and related provisions of this Contract that are terminated for cause shall cease on the effective date of the termination.

**2.213 Non-Appropriation**

- (a) Contractor acknowledges that, if this Contract extends for several fiscal years, continuation of this Contract is subject to appropriation or availability of funds for this Contract. If funds to enable the State to effect continued payment under this Contract are not appropriated or otherwise made available, the State shall have the right to terminate this Contract and all affected Statements of Work, in whole or in part, at the end of the last period for which funds have been appropriated or otherwise made available by giving written notice of termination to Contractor. The State shall give Contractor at least 30 days advance written notice of termination for non-appropriation or unavailability (or such time as is available if the State receives notice of the final decision less than 30 days before the funding cutoff).
- (b) If funding for the Contract is reduced by law, or funds to pay Contractor for the agreed-to level of the Services or production of Deliverables to be provided by Contractor are not appropriated or otherwise made available, the State may, upon 30 days written notice to Contractor, reduce the level of the Services or the change the production of Deliverables in such manner and for such periods of time as the State may elect. The charges payable under this Contract will be equitably adjusted to reflect any equipment, services or commodities not provided by reason of such reduction.
- (c) In the event the State terminates this Contract, eliminates certain Deliverables, or reduces the level of Services to be provided by Contractor pursuant to this Section, the State shall pay Contractor for all Work-in-Process performed through the effective date of the termination or reduction in level, as the case may be and as





determined by the State, to the extent funds are available. For the avoidance of doubt, this Section will not preclude Contractor from reducing or stopping Services/Deliverables and/or raising against the State in a court of competent jurisdiction, any claim for a shortfall in payment for Services performed or Deliverables finally accepted before the effective date of termination.

#### **2.214 Criminal Conviction**

The State may terminate this Contract immediately and without further liability or penalty in the event Contractor, an officer of Contractor, or an owner of a 25% or greater share of Contractor is convicted of a criminal offense incident to the application for, or performance of, a State, public or private Contract or subcontract; convicted of a criminal offense, including any of the following: embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, attempting to influence a public employee to breach the ethical conduct standards for State of Michigan employees; convicted under State or federal antitrust statutes; or convicted of any other criminal offense which in the sole discretion of the State reflects upon Contractor's business integrity.

#### **2.215 Approvals Rescinded**

The State may terminate this Contract without further liability or penalty in the event any final administrative or judicial decision or adjudication disapproves a previously approved request for purchase of personal services pursuant to Constitution 1963, Article 11, § 5, and Civil Service Rule 7-1. Termination may be in whole or in part and may be immediate as of the date of the written notice to Contractor or may be effective as of the date stated in such written notice.

#### **2.216 Rights and Obligations Upon Termination**

(a) If this Contract is terminated by the State for any reason, Contractor shall (a) stop all work as specified in the notice of termination, (b) take any action that may be necessary, or that the State may direct, for preservation and protection of Deliverables or other property derived or resulting from this Contract that may be in Contractor's possession, (c) return all materials and property provided directly or indirectly to Contractor by any entity, agent or employee of the State, (d) in the event that the Contractor maintains title in Deliverables that is intended to be transferred to the State at the termination of the Contract, Contractor will transfer title in, and deliver to, the State, unless otherwise directed, all Deliverables intended to be transferred to the State at the termination of the Contract and which are resulting from the Contract (which shall be provided to the State on an "As-Is" basis except to the extent the amounts paid by the State in respect of such items included compensation to Contractor for the provision of warranty services in respect of such materials),

and (e) take any action to mitigate and limit any potential damages, or requests for Contractor adjustment or termination settlement costs, to the maximum practical extent, including terminating or limiting as otherwise applicable those subcontracts and outstanding orders for material and supplies resulting from the terminated Contract.

(b) In the event the State terminates this Contract prior to its expiration for its own convenience, the State shall pay Contractor for all charges due for Services provided prior to the date of termination and, if applicable, as a separate item of payment pursuant to this Contract, for Work In Process, on a percentage of completion basis at the level of completion determined by the State. All completed or partially completed Deliverables prepared by Contractor pursuant to this Contract shall, at the option of the State, become the State's property, and Contractor shall be entitled to receive equitable fair compensation for such Deliverables. Regardless of the basis for the termination, the State shall not be obligated to pay, or otherwise compensate, Contractor for any lost expected future profits, costs or expenses incurred with respect to Services not actually performed for the State.

(c) Upon a good faith termination, the State shall have the right to assume, at its option, any and all subcontracts and agreements for services and deliverables provided under this Contract, and may further pursue completion of the Services/Deliverables under this Contract by replacement contract or otherwise as the State may in its sole judgment deem expedient.

#### **2.217 Reservation of Rights**

Any termination of this Contract or any Statement of Work issued under it by a party shall be with full reservation of, and without prejudice to, any rights or remedies otherwise available to such party with respect to any claims arising prior to or as a result of such termination.

#### **2.218 Contractor Transition Responsibilities**

In the event this contract is terminated, for convenience or cause, dissolved, voided, rescinded, nullified, expires or is otherwise rendered unenforceable, the Contractor agrees to comply with direction provided by the State to assist in the orderly transition of equipment, services, software, leases, etc. to the State or a third party designated by the State. In the event of termination or the expiration of this Contract, the Contractor agrees to make all reasonable efforts to effect an



orderly transition of services within a reasonable period of time that in no event will exceed 90 days. These efforts shall include, but are not limited to, the following:

- (a) Personnel - The Contractor shall work with the State, or a specified third party, to develop a transition plan setting forth the specific tasks and schedule to be accomplished by the parties, to effect an orderly transition. The Contractor shall allow as many personnel as practicable to remain on the job to help the State, or a specified third party, maintain the continuity and consistency of the services required by this Contract. In addition, during or following the transition period, in the event the State requires the Services of the Contractor's subcontractors or vendors, as necessary to meet its needs, Contractor agrees to reasonably, and with good-faith, work with the State to use the Services of Contractor's subcontractors or vendors. Contractor will notify all of Contractor's subcontractors of procedures to be followed during transition.
- (b) Information - The Contractor agrees to provide reasonable detailed specifications for all Services/Deliverables needed by the State, or specified third party, to properly provide the Services/Deliverables required under this Contract. The Contractor will provide the State with asset management data generated from the inception of this Contract through the date on which this Contractor is terminated in a comma-delineated format unless otherwise requested by the State. The Contractor will deliver to the State any remaining owed reports and documentation still in Contractor's possession subject to appropriate payment by the State.
- (c) Software. - The Contractor shall reasonably assist the State in the acquisition of any Contractor software required to perform the Services/use the Deliverables under this Contract. This shall include any documentation being used by the Contractor to perform the Services under this Contract. If the State transfers any software licenses to the Contractor, those licenses shall, upon expiration of the Contract, transfer back to the State at their current revision level. Upon notification by the State, Contractor may be required to freeze all non-critical changes to Deliverables/Services.
- (d) Payment - If the transition results from a termination for any reason, reimbursement shall be governed by the termination provisions of this Contract. If the transition results from expiration, the Contractor will be reimbursed for all reasonable transition costs (i.e. costs incurred within the agreed period after contract expiration that result from transition operations) at the rates specified in the Contract. The Contractor will prepare an accurate accounting from which the State and Contractor may reconcile all outstanding accounts.

## 2.219 State Transition Responsibilities

In the event that this Contract is terminated, dissolved, voided, rescinded, nullified, or otherwise rendered unenforceable, the State agrees to perform the following obligations, and any others upon which the State and the Contractor agree:

- (a) Reconciling all accounts between the State and the Contractor;
- (b) Completing any pending post-project reviews.

### 2.220 Termination by Contractor

## 2.221 Termination by Contractor

If the State materially breaches its obligation to pay Contractor undisputed amounts due and owing under this Contract in accordance with **Section 2.090**, or if the State breaches its other obligations under this Contract to an extent that makes it impossible or commercially impractical for Contractor to perform the Services, and if the State does not cure the breach within the time period specified in a written notice of breach provided to the State by Contractor (such time period not to be less than 30 days), then Contractor may terminate this Contract, in whole or in part based on Statement of Work for cause, as of the date specified in the notice of termination; provided, however, that Contractor must discharge its obligations under **Section 2.250** before any such termination.

### 2.230 Stop Work

## 2.231 Stop Work Orders

The State may, at any time, by written stop work order to Contractor, require that Contractor stop all, or any part, of the work called for by the Contract for a period of up to 90 calendar days after the stop work order is delivered to Contractor, and for any further period to which the parties may agree. The stop work order shall be specifically identified as such and shall indicate that it is issued under this **Section 2.230**. Upon receipt of the stop work order, Contractor shall immediately comply with its terms and take all reasonable steps to minimize the incurrence of costs allocable to the work covered by the stop work order during the period of work stoppage. Within the period of the stop work order, the State shall either:

- (a) cancel the stop work order; or
- (b) terminate the work covered by the stop work order as provided in **Section 2.210**.

## 2.232 Cancellation or Expiration of Stop Work Order

If a stop work order issued under this **Section 2.230** is canceled or the period of the stop work order or any extension thereof expires, Contractor shall resume work. The parties shall agree upon an equitable adjustment in the delivery



schedule, the Contract price, or both, and the Contract shall be modified, in writing, accordingly, if: (a) the stop work order results in an increase in the time required for, or in Contractor's costs properly allocable to, the performance of any part of the Contract; and (b) Contractor asserts its right to an equitable adjustment within 30 calendar days after the end of the period of work stoppage; provided that, if the State decides the facts justify the action, the State may receive and act upon a Contractor proposal submitted at any time before final payment under the Contract. Any adjustment will conform to the requirements of **Section 2.106**.

### 2.233 Allowance of Contractor Costs

If the stop work order is not canceled and the work covered by the stop work order is terminated for reasons other than material breach, such termination shall be deemed to be a termination for convenience under **Section 2.212**, and the State shall allow reasonable costs resulting from the stop work order in arriving at the termination settlement. For the avoidance of doubt, the State shall not be liable to Contractor for loss of profits because of a stop work order issued under this **Section 2.230**.

2.240 Reserved

2.250 Dispute Resolution

### 2.251 In General

Any claim, counterclaim, or dispute between the State and Contractor arising out of or relating to the Contract or any Statement of Work shall be resolved as follows. For all Contractor claims seeking an increase in the amounts payable to Contractor under the Contract, or the time for Contractor's performance, Contractor shall submit a letter executed by Contractor's Contract Administrator or his designee certifying that (a) the claim is made in good faith, (b) the amount claimed accurately reflects the adjustments in the amounts payable to Contractor or the time for Contractor's performance for which Contractor believes the State is liable and covers all costs of every type to which Contractor is entitled from the occurrence of the claimed event, and (c) the supporting data provided with such an affidavit are current and complete to Contractor's best knowledge and belief.

### 2.252 Informal Dispute Resolution

- (a) All operational disputes between the parties shall be resolved under the Contract Management procedures developed pursuant to **Section 2.100**. If the parties are unable to resolve any disputes after compliance with such processes, the parties shall meet with the Director of Purchasing Operations, DMB, or designee, for the purpose of attempting to resolve such dispute without the need for formal legal proceedings, as follows:
  - (i) The representatives of Contractor and the State shall meet as often as the parties reasonably deem necessary in order to gather and furnish to each other all information with respect to the matter in issue which the parties believe to be appropriate and germane in connection with its resolution. The representatives shall discuss the problem and negotiate in good faith in an effort to resolve the dispute without the necessity of any formal proceeding.
  - (ii) During the course of negotiations, all reasonable requests made by one party to another for non-privileged information reasonably related to the Contract will be honored in order that each of the parties may be fully advised of the other's position.
  - (iii) The specific format for the discussions will be left to the discretion of the designated State and Contractor representatives, but may include the preparation of agreed upon statements of fact or written statements of position.
  - (iv) Following the completion of this process within 60 calendar days, the Director of Purchasing Operations, DMB, or designee, shall issue a written opinion regarding the issue(s) in dispute within 30 calendar days. The opinion regarding the dispute shall be considered the State's final action and the exhaustion of administrative remedies.
- (b) This **Section 2.250** will not be construed to prevent either party from instituting, and a party is authorized to institute, formal proceedings earlier to avoid the expiration of any applicable limitations period, to preserve a superior position with respect to other creditors, or pursuant to **Section 2.253**.
- (c) The State will not mediate disputes between the Contractor and any other entity, except state agencies, concerning responsibility for performance of work pursuant to the Contract.

### 2.253 Injunctive Relief

The only circumstance in which disputes between the State and Contractor will not be subject to the provisions of **Section 2.252** is where a party makes a good faith determination that a breach of the terms of the Contract by the other party is such that the damages to such party resulting from the breach will be so immediate, so large or severe and so incapable



of adequate redress after the fact that a temporary restraining order or other immediate injunctive relief is the only adequate remedy.

## **2.254 Continued Performance**

Each party agrees to continue performing its obligations under the Contract while a dispute is being resolved except to the extent the issue in dispute precludes performance (dispute over payment shall not be deemed to preclude performance) and without limiting either party's right to terminate the Contract as provided in **Section 2.210** and **2.220**, as the case may be.

### 2.260 Federal and State Contract Requirements

## **2.261 Nondiscrimination**

In the performance of the Contract, Contractor agrees not to discriminate against any employee or applicant for employment, with respect to his or her hire, tenure, terms, conditions or privileges of employment, or any matter directly or indirectly related to employment, because of race, color, religion, national origin, ancestry, age, sex, height, weight, marital status, physical or mental disability. Contractor further agrees that every subcontract entered into for the performance of this Contract or any purchase order resulting from this Contract will contain a provision requiring non-discrimination in employment, as specified here, binding upon each Subcontractor. This covenant is required pursuant to the Elliot Larsen Civil Rights Act, 1976 PA 453, MCL 37.2101, *et seq.*, and the Persons with Disabilities Civil Rights Act, 1976 PA 220, MCL 37.1101, *et seq.*, and any breach of this provision may be regarded as a material breach of the Contract.

## **2.262 Unfair Labor Practices**

Pursuant to 1980 PA 278, MCL 423.231, *et seq.*, the State shall not award a Contract or subcontract to an employer whose name appears in the current register of employers failing to correct an unfair labor practice compiled pursuant to section 2 of the Act. This information is compiled by the United States National Labor Relations Board. A Contractor of the State, in relation to the Contract, shall not enter into a contract with a Subcontractor, manufacturer, or supplier whose name appears in this register. Pursuant to section 4 of 1980 PA 278, MCL 423.324, the State may void any Contract if, subsequent to award of the Contract, the name of Contractor as an employer or the name of the Subcontractor, manufacturer or supplier of Contractor appears in the register.

## **2.263 Workplace Safety and Discriminatory Harassment**

In performing Services for the State, the Contractor shall comply with the Department of Civil Services Rule 2-20 regarding Workplace Safety and Rule 1-8.3 regarding Discriminatory Harassment. In addition, the Contractor shall comply with Civil Service regulations and any applicable agency rules provided to the Contractor. For Civil Service Rules, see <http://www.mi.gov/mdcs/0,1607,7-147-6877---,00.html>.

### 2.270 Litigation

## **2.271 Disclosure of Litigation**

- (a) Disclosure. Contractor must disclose any material criminal litigation, investigations or proceedings involving the Contractor (and each Subcontractor) or any of its officers or directors or any litigation, investigations or proceedings under the Sarbanes-Oxley Act. In addition, each Contractor (and each Subcontractor) must notify the State of any material civil litigation, arbitration or proceeding which arises during the term of the Contract and extensions thereto, to which Contractor (or, to the extent Contractor is aware, any Subcontractor hereunder) is a party, and which involves: (i) disputes that might reasonably be expected to adversely affect the viability or financial stability of Contractor or any Subcontractor hereunder; or (ii) a claim or written allegation of fraud against Contractor or, to the extent Contractor is aware, any Subcontractor hereunder by a governmental or public entity arising out of their business dealings with governmental or public entities. Any such litigation, investigation, arbitration or other proceeding (collectively, "Proceeding") must be disclosed in a written statement to the Contract Administrator within 30 days of its occurrence. Details of settlements which are prevented from disclosure by the terms of the settlement may be annotated as such. Information provided to the State from Contractor's publicly filed documents referencing its material litigation will be deemed to satisfy the requirements of this Section.
- (b) Assurances. In the event that any such Proceeding disclosed to the State pursuant to this Section, or of which the State otherwise becomes aware, during the term of this Contract would cause a reasonable party to be concerned about:



- (i) the ability of Contractor (or a Subcontractor hereunder) to continue to perform this Contract in accordance with its terms and conditions, or
- (ii) whether Contractor (or a Subcontractor hereunder) in performing Services for the State is engaged in conduct which is similar in nature to conduct alleged in such Proceeding, which conduct would constitute a breach of this Contract or a violation of Michigan law, regulations or public policy, then Contractor shall be required to provide the State all reasonable assurances requested by the State to demonstrate that:
  - (A) Contractor and/or its Subcontractors hereunder will be able to continue to perform this Contract and any Statements of Work in accordance with its terms and conditions, and
  - (B) Contractor and/or its Subcontractors hereunder have not and will not engage in conduct in performing the Services which is similar in nature to the conduct alleged in such Proceeding.
- (c) Contractor shall make the following notifications in writing:
  - (1) Within 30 days of Contractor becoming aware that a change in its ownership or officers has occurred, or is certain to occur, or a change that could result in changes in the valuation of its capitalized assets in the accounting records, Contractor shall notify Purchasing Operations.
  - (2) Contractor shall also notify Purchasing Operations within 30 days whenever changes to asset valuations or any other cost changes have occurred or are certain to occur as a result of a change in ownership or officers.
  - (3) Contractor shall also notify Purchasing Operations within 30 days whenever changes to company affiliations occur.

#### **2.272 Governing Law**

The Contract shall in all respects be governed by, and construed in accordance with, the substantive laws of the State of Michigan without regard to any Michigan choice of law rules that would apply the substantive law of any other jurisdiction to the extent not inconsistent with, or pre-empted by federal law.

#### **2.273 Compliance with Laws**

Contractor shall comply with all applicable state, federal, and local laws and ordinances ("Applicable Laws") in providing the Services/Deliverables.

#### **2.274 Jurisdiction**

Any dispute arising from the Contract shall be resolved in the State of Michigan. With respect to any claim between the parties, Contractor consents to venue in Ingham County, Michigan, and irrevocably waives any objections it may have to such jurisdiction on the grounds of lack of personal jurisdiction of such court or the laying of venue of such court or on the basis of forum non conveniens or otherwise. Contractor agrees to appoint agents in the State of Michigan to receive service of process.

#### 2.280 Environmental Provision

#### **2.281 Environmental Provision - Reserved**

#### 2.290 General

#### **2.291 Amendments**

The Contract may not be modified, amended, extended, or augmented, except by a writing executed by the parties.

#### **2.292 Assignment**

- (a) Neither party shall have the right to assign the Contract, or to assign or delegate any of its duties or obligations under the Contract, to any other party (whether by operation of law or otherwise), without the prior written consent of the other party; provided, however, that the State may assign the Contract to any other State agency, department, division or department without the prior consent of Contractor and Contractor may assign the Contract to an affiliate so long as such affiliate is adequately capitalized and can provide adequate assurances that such affiliate can perform the Contract. Any purported assignment in violation of this Section shall be null and void. It is the policy of the State of Michigan to withhold consent from proposed assignments, subcontracts, or novations when such transfer of responsibility would operate to decrease the State's likelihood of receiving performance on the Contract or the State's ability to recover damages.
- (b) Contractor may not, without the prior written approval of the State, assign its right to receive payments due under the Contract. In the event of any such permitted assignment, Contractor shall not be relieved of its





responsibility to perform any duty imposed upon it herein, and the requirement under the Contract that all payments shall be made to one entity shall continue.

## 2.293 Entire Contract; Order of Precedence

- (a) The Contract, including any Statements of Work and Exhibits, to the extent not contrary to the Contract, each of which is incorporated for all purposes, constitutes the entire agreement between the parties with respect to the subject matter and supersedes all prior agreements, whether written or oral, with respect to such subject matter and as additional terms and conditions on the purchase order shall apply as limited by **Section 2.061**.
- (b) In the event of any inconsistency between the terms of the Contract and a Statement of Work, the terms of the Statement of Work will take precedence (as to that Statement of Work only); provided, however, that a Statement of Work may not modify or amend the terms of **Sections 2.110 through 2.220** of the Contract, which may be modified or amended only by a formal Contract amendment.

## 2.294 Headings

Captions and headings used in the Contract are for information and organization purposes. Captions and headings, including inaccurate references, do not, in any way, define or limit the requirements or terms and conditions of the Contract.

## 2.295 Relationship of the Parties (Independent Contractor Relationship)

The relationship between the State and Contractor is that of client and independent Contractor. No agent, employee, or servant of Contractor or any of its Subcontractors shall be or shall be deemed to be an employee, agent or servant of the State for any reason. Contractor will be solely and entirely responsible for its acts and the acts of its agents, employees, servants and Subcontractors during the performance of the Contract.

## 2.296 Notices

- (a) Any notice given to a party under the Contract shall be deemed effective, if addressed to such party as addressed below, upon: (i) delivery, if hand delivered; (ii) receipt of a confirmed transmission by facsimile if a copy of the notice is sent by another means specified in this Section; (iii) the third (3rd) Business Day after being sent by U.S. mail, postage pre-paid, return receipt requested; or (iv) the next Business Day after being sent by a nationally recognized overnight express courier with a reliable tracking system.

State:  
State of Michigan  
Purchasing Operations  
Attention: Jim Wilson  
PO Box 30026  
530 West Allegan  
Lansing, Michigan 48909

Contractor(s):  
Citistreet LLC  
Attention: Randy Taylor  
11951 Freedom Drive 13<sup>th</sup> Floor  
Reston, VA 20190

Either party may change its address where notices are to be sent by giving notice in accordance with this Section.

- (b) Binding Commitments  
Representatives of Contractor identified in **Article 1, Attachment B** shall have the authority to make binding commitments on Contractor's behalf within the bounds set forth in such table. Contractor may change such representatives from time to time upon written notice.

## 2.297 Media Releases and Contract Distribution

- (a) Media Releases  
Neither Contractor nor the State will make any news releases, public announcements or public disclosures, nor will they have any conversations with representatives of the news media, pertaining to the Contract, the Services or the Contract without the prior written approval of the other party, and then only in accordance with explicit written instructions provided by that party. In addition, neither Contractor nor the State will use the name, trademarks or other proprietary identifying symbol of the other party or its affiliates without such party's prior written consent. Prior written consent of the Contractor must be obtained from authorized representatives.
- (b) Contract Distribution  
Purchasing Operations shall retain the sole right of Contract distribution to all State agencies and local units of government unless other arrangements are authorized by Purchasing Operations.

## 2.298 Reformation and Severability



Each provision of the Contract shall be deemed to be severable from all other provisions of the Contract and, if one or more of the provisions of the Contract shall be declared invalid, the remaining provisions of the Contract shall remain in full force and effect.

**2.299 Consents and Approvals**

Except as expressly provided otherwise in the Contract, if either party requires the consent or approval of the other party for the taking of any action under the Contract, such consent or approval shall be in writing and shall not be unreasonably withheld or delayed.

**2.300 No Waiver of Default**

The failure of a party to insist upon strict adherence to any term of the Contract shall not be considered a waiver or deprive the party of the right thereafter to insist upon strict adherence to that term, or any other term, of the Contract.

**2.301 Survival**

Any provisions of the Contract that impose continuing obligations on the parties including the parties' respective warranty, indemnity and confidentiality obligations, shall survive the expiration or termination of the Contract for any reason. Specific references to survival in the Contract are solely for identification purposes and not meant to limit or prevent the survival of any other section.

**2.302 Covenant of Good Faith**

Each party agrees that, in its dealings with the other party or in connection with the Contract, it shall act reasonably and in good faith. Unless stated otherwise in the Contract, the parties will not unreasonably delay, condition or withhold the giving of any consent, decision or approval that is either requested or reasonably required of them in order for the other party to perform its responsibilities under the Contract.

**2.303 Permits**

Contractor shall obtain and pay any associated costs for all required governmental permits, licenses and approvals for the delivery, installation and performance of the Services. The State shall pay for all costs and expenses incurred in obtaining and maintaining any necessary easements or right of way.

**2.304 Website Incorporation**

State expressly states that it will not be bound by any content on the Contractor's website, even if the Contractor's documentation specifically referenced that content and attempts to incorporate it into any other communication, unless the State has actual knowledge of such content and has expressly agreed to be bound by it in a writing that has been manually signed by an authorized representation of the State.

**2.305 Taxes**

Vendors are expected to collect and pay all applicable federal, state, and local employment taxes, including the taxes defined in Section 3.022 for all persons involved in the resulting Contract.

The State may refuse to award a contract to any Vendor who has failed to pay any applicable State taxes. The State may refuse to accept Vendor's bid, if Vendor has any outstanding debt with the State. Prior to any award, the State will verify whether Vendor has any outstanding debt with the State.

**2.306 Prevailing Wage - Reserved****2.307 Call Center Disclosure**

Contractor and/or all subcontractors involved in the performance of this Contract providing call or contact center services to the State must disclose the location of its call or contact center services to inbound callers. Failure to disclose this information shall be a material breach of this Contract.

**2.308 Future Bidding Preclusion**

Contractor acknowledges that, to the extent this Contract involves the creation, research, investigation or generation of a future CONTRACT, it may be precluded from bidding on the subsequent CONTRACT. The State reserves the right to disqualify any Contractor if the State determines that the Contractor has used its position (whether as an incumbent Contractor, or as a Contractor hired to assist with the CONTRACT development, or as a Vendor offering free assistance) to gain a leading edge on the competitive CONTRACT.





2.310 *Reserved*

2.320 *Extended Purchasing - Reserved*

2.330 *Federal Grant Requirements- Reserved*

# Investment Management Fees

Tier	401(k) Plan	457 Plan	Total Assets	% of Plan Assets	Expense Ratio	CitiStreet Investment Management Fees
Money Market	153,831,395	14,548,704	168,380,100	7.6%	0.41%	185,218
Stable Value	396,177,774	921,054,242	1,317,232,016	59.2%	0.42%	1,580,678
Core Bond Index	50,801,035	22,090,855	72,891,889	3.3%	0.13%	94,759
S&P 500 Index	190,983,567	126,905,485	317,889,052	14.3%	0.055%	174,839
Mid Cap Index	122,034,307	67,020,629	189,054,936	8.5%	0.12%	226,866
Small Cap Index	45,003,809	26,171,123	71,174,932	3.2%	0.24%	170,820
Conservative Asset Allocation	10,348,837	8,760,129	19,108,966	0.9%	0.19%	36,307
Moderate Asset Allocation	20,839,800	13,616,339	34,456,139	1.5%	0.18%	62,021
Aggressive Asset Allocation	23,816,710	9,589,493	33,406,203	1.5%	0.18%	60,131
<b>Total Tier 1</b>	<b>\$1,013,837,234</b>	<b>\$1,209,756,999</b>	<b>\$2,223,594,233</b>	<b>100.0%</b>	<b>0.12%</b>	<b>\$2,591,640</b>
Average Expense Ratio: 0.15%						
<b>Tier 2</b>						
Western Asset Core Bond; FI	35,117,496	15,409,964	50,527,460	2.6%	0.70%	353,692
MFS Total Return; A	68,180,449	22,914,263	91,094,711	4.6%	0.90%	819,862
Dodge & Cox Stock	456,373,917	258,256,682	714,630,599	36.1%	0.52%	3,715,079
Legg Mason Large Cap Growth; Y	202,388,747	104,809,906	307,198,654	15.5%	0.73%	2,242,550
Lord Abbett Mid-Cap Value; A	61,950,816	33,604,592	95,555,407	4.8%	1.02%	974,665
Artisan Mid-Cap; Investors	17,972,337	9,199,907	27,172,244	1.4%	1.18%	320,632
Columbia Acorn; Z	130,100,052	63,911,192	194,011,244	9.8%	1.20%	2,328,135
STI Classic Sm Cap Value I	34,660,589	18,621,528	53,282,118	2.7%	0.75%	399,616
American Funds EuroPacific Growth; A	108,120,187	101,893,510	210,013,697	10.6%	0.81%	1,701,111
Templeton Foreign; A	43,006,794	12,065,519	55,072,313	2.8%	1.16%	638,839
SSgA Emerging Markets	115,409,728	56,638,600	182,048,327	9.2%	1.25%	2,275,604
<b>Total Tier 2</b>	<b>\$1,273,281,111</b>	<b>\$707,325,662</b>	<b>\$1,980,606,774</b>	<b>100.0%</b>	<b>0.80%</b>	<b>\$15,770,776</b>
<b>Total Tier 1 and Tier 2</b>	<b>\$2,287,118,345</b>	<b>\$1,917,082,661</b>	<b>\$4,204,201,007</b>	<b>93.3%</b>		
Loan Fund	183,360,761	0	183,360,761	4.1%		\$18,362,416
SMA	79,575,278	38,626,610	118,201,888	2.6%		
<b>Total Plan Assets</b>	<b>\$2,550,054,384</b>	<b>\$1,955,709,271</b>	<b>\$4,505,763,656</b>	<b>100.0%</b>	<b>Total Costs of Plan 1 &amp; 2</b>	

**State of Michigan 401(k) and 457(b) Plans  
Fee Analysis**

<b>CitiStreet</b>	
<b>One-Time Fees</b>	*
<i>Plan Set-Up/Installation</i>	\$0
<b>Ongoing Fees:</b>	
Hard Dollar Recordkeeping Fee	\$0
Tier 1 - Investment Management Fees	\$2,591,640
Tier 2 - Investment Management Fees	\$15,770,776
<b>Sub-Total Fees</b>	<b>\$18,362,416</b>
Revenue Sharing to the State	(\$1,681,680)
<b>NET FEES</b>	<b>\$16,680,736</b>
Internal Recordkeeping Fee	5.4 bps on Plan assets \$22.64 per participant
	<b>\$2,287,795</b>
<b>Plan Information:</b>	
1) Total Plan assets as of September 30, 2006: \$4,204,201,007 (401(k) Plan - \$2,287,118,345 and 457(b) Plan - \$1,917,082,661).	
2) Total assets in Tier 1: \$2,223,594,233. Total assets in Tier 2: \$1,980,606,774.	
3) Total Plan assets do not include the loan fund (\$183,360,761) or the self-directed brokerage account (\$118,201,888).	
4) The 401(k) Plan had 63,098 account balances and the 457(b) Plan had 37,953 account balances as of December 31, 2005.	

**State of Michigan 401(k) and 457(b) Plans  
Fee Analysis**

<b>SERVICE</b>		<b>CitiStreet</b>
<b>ONE TIME FEE:</b>		
Plan Set-Up/Installation Costs		Not applicable.
Plan Termination Costs		To be determined.
<b>ONGOING FEES:</b>		
Recordkeeping Fee		Included (\$22.64 per participant is paid by the fund revenue sharing to CitiStreet)
Revenue Sharing to the State		CitiStreet is increasing the revenue sharing from 2.9 bps to 4 bps on plan assets to the State.
Financial Investment Advisory Service		The cost of the CitiStreet Advisors online service is paid through revenue sharing from Legg Mason (17.5 bps in revenue sharing) and at no costs to participants. All participants with account balances receive this access as well as certain retirees. Those that wish to add the Professional Account Management would pay 30 bps annually.
Self-Directed Brokerage Services		SDBA available through State Street. The annual charge is \$50 per account plus transaction fees.
Annuity Product		Paid for by user.
<b>ADMINISTRATION:</b>		
Custodial Trustee		Included (\$2.77 per participant is paid by the fund revenue sharing to CitiStreet)
Trustee Fee on Outside Investments		Not applicable.*
Check Processing		Included
1099R Forms		Included
Postage		Included
Loan Administration		\$50 for new loan set-up and no cost for ongoing maintenance.

**State of Michigan 401(k) and 457(b) Plans  
Fee Analysis**

<b>SERVICE</b>		<b>CitiStreet</b>
Hardship Qualification and Processing	Included	
Domestic Relations Order Qualification and Processing	Included	
Wire/ACH Fees for Participant Distributions	Included	
Participant Statements	Included	
Transaction Confirmation Statements	Included	
Voice Response System	Included (\$6.47 per participant is paid by the fund revenue sharing to CitiStreet)	
Customer Service Center	Included	
Internet Service	Included (\$3.23 per participant is paid by the fund revenue sharing to CitiStreet)	
Online Services: Set-up/Ongoing Software	Not applicable.	
<b>COMMUNICATION/ EDUCATION:</b>		
Enrollment/Communication Services	Included (\$6.00 per participant is paid by the fund revenue sharing to CitiStreet)	
Generic or Customized Enrollment Materials	Included	
Awareness Materials (posters, tents, etc.)	Included	
Audio Tapes/ Video Tapes	Included	
Generic or Customized Newsletter	Included	
Pre-Retirement/ Retirement Planning Tools	Included	
Investment Education Materials	Not applicable.	
Enrollment Meetings	CitiStreet can handle 750 group meetings and 5,000 one-on-one meetings annually.	

**State of Michigan 401(k) and 457(b) Plans  
Fee Analysis**

<b>SERVICE</b>	<b>CitiStreet</b>
<b>MISCELLANEOUS:</b>	
Favorable Fee Re-Negotiations	The proposed fee and realloances are based on a desire to retain Michigan as a client and to demonstrate the Plan's important. The proposal is based on a fee reduction initially to the Plan and then retaining the assumed growth. If there is additional growth above CitiStreet's assumptions, they would be happy to discuss further.
Other Fees	Field staff and all educational services provided is included for a cost of \$5.08 per participant paid by the fund revenue to CitiStreet.

**CitiStreet shall not be entitled to retain float earned on accounts held for the benefit of the 401(k) and 457 Plans.**