



STATE OF HAWAII
DEFERRED COMPENSATION PLAN
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

December 11, 2017

ADDENDUM NO. 1

**WRITTEN RESPONSES TO QUESTIONS RECEIVED ON THE
REQUEST FOR PROPOSALS FOR A TARGET DATE FUND INVESTMENT OPTION FOR
THE STATE OF
HAWAII SECTION 457 DEFERRED COMPENSATION PLAN,
RFP NO. DCP-17-1**

This is to inform you that the Board of Trustees ("**Board**") of the State of Hawaii's ("**State**") Deferred Compensation Plan ("**Plan**") received the following written questions pertaining to the above-referenced RFP. After careful consideration, the Board hereby responds to these questions as follows:

- Q1. *"What is the average age of the participant?"*
- A1. **The average age of the participant is 56.**
- Q2. *"What is the average starting and ending salary of the participants?"*
- A2. **Information on salary is not available since salary information is not currently provided to the record keeper, Prudential Retirement.**
- Q3. *"What is the average balance at retirement?"*
- A3. **The average balance at retirement is \$98,291.**
- Q4. *"What is the average age at retirement?"*
- A4. **The average age at retirement is 64.**
- Q5. *"What is the average age that participants enter the plan?"*
- A5. **The average age that participants enter the plan is 44.**
- Q6. *"What is the average savings rate for participants?"*
- A6. **The average savings rate for participants in dollars is \$6,193 annualized.**
- Q7. *"Is there a target replacement ratio at retirement?"*
- A7. **A target range is between 63% to 80%.**

- Q8. *“Are there any other guaranteed sources of income?”*
- A8. **The Plan provides access to an “annuity shopping service” currently.**
- Q9. *“What is the percentage of participants that remain in the plan at retirement?”*
- A9. **The percentage of participants that remain in plan at retirement is 78%.**
- Q10. *“Is there an average withdrawal rate?”*
- A10. **The average withdrawal rate is \$9,335.**
- Q11. *“What is the primary objective of the plan:*
- a. *To provide greater principal preservation by managing downside risk at or near retirement?*
 - b. *To provide adequate income in retirement?*
 - c. *Balance between the two?”*
- A11. **The objective of the Plan would be to provide a balance between “a” and “b” listed above.**
- Q12. *“Is there a preference for 5-year or 10-year increments?”*
- A12. **No.**
- Q13. *“Are there any other factors that the plan sponsor wishes to incorporate into glide path design or portfolio construction?”*
- A13. **See, Q&A #11.**
- Q14. *“Should your preference be for a custom target date suite, is there room for additional underlying investments, particularly alternatives?”*
- A14. **Yes. The Board will consider whether the alternatives serve as a good fit in the entire custom suite and the objective of the Plan.**
- Q15. *“Is there a default investment option within the plan?”*
- A15. **All employees making contributions into the Plan, at the time of enrollment, are required to select their investment option(s).**
- Q16. *“Does your plan provide education around the benefits of investing in a target-date fund and is there a desire to add or increase these offerings?”*
- A16. **Prudential Retirement is the Third Party Administrator for the State of Hawaii Deferred Compensation Plan (“Plan”) and is responsible for providing educational services to the Plan.**

- Q17. *“Will you and your consultant be looking for a ‘To Retirement’ or ‘Through Retirement’ glidepath?”*
- A17. **The current glidepath is “Through Retirement”. The Board will consider and evaluate both glidepaths.**
- Q18. The RFP mentions that the search is to replace a custom solution. *“Will you be looking for a customized Target Date solution or will you consider pre-built products?”*
- A18. **The Board is seeking an investment vehicle that provides the best pricing structure, regardless of the type of investment vehicle.**
- Q19. *“Will they consider a subadvised solution?”*
- A19. **Yes.**
- Q20. *“Could you please distinguish between the roles of the OFFEROR and CONTRACTOR?”*
- A20. **The OFFEROR is the entity submitting a written response. The CONTRACTOR is the entity who will be entering into an agreement with the STATE.**
- Q21. In section VII.9.a, the unbound original of the proposal is to be printed single sided. *“For the five hardcopies, is double-side acceptable?”*
- A21. **Yes.**
- Q22. In Appendix E, assets under management data is requested as of December 31, 2017. That data will not be available by the submission date. *“Would asset data as of November 30, 2017 be acceptable?”*
- A22. **It is preferable to have all data as of December 31, 2017; however, the Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.**
- Q23. In section IV.D.7.a., performance attribution is requested “for the quarter, YTD, 1-, 3- and 5- years and the past five calendar years. We are proposing a Lifetime Funds suite, which is comprised of 10 funds, resulting in approximately 100 attribution reports. *“Could this requirement be revised or abridged? If not, considering the as of date is December 31, 2017, would it be appropriate to provide 1 report covering YTD, 1 year, and calendar year 2017?”*
- A23. **Please only provide summary attribution reports for all periods specified in the RFP. Detailed breakdown at the underlying fund level is not required.**
- Q24. Pertaining to Appendix “D”, General Conditions:
- a. Clauses 2.c and 7: These provisions, relating to the CONTRACTOR’S assumption of liability and indemnification requirements, could be read to require the CONTRACTOR be liable to all investors for all losses; however we believe that is beyond the scope of what was intended. *“Please confirm that the STATE is in accordance with such interpretation.”*

- A24. a. **Yes. However, the provisions apply to any losses caused by the CONTRACTOR.**
- b. Clause 5: *“Please confirm that soft dollars are not contemplated in this provision.”*
- A24. b. **The Contractor has to determine whether it can make the required representation.**
- c. Clause 6.a: *“Please confirm that this provision is not intended to prohibit the CONTRACTOR from engaging another investment advisory firm to subadvise some or all of the product’s assets.”*
- A24. c. **Yes, a CONTRACTOR is not prohibited from engaging another investment advisory firm.**
- d. Clause 9: We do not believe that this provision relating to liquidated damages is applicable to this agreement. *“Please confirm that the STATE agrees that this provision is not acceptable.”*
- A24. d. **Liquidated damages are not applicable.**
- e. Clause 12: Portions of this provision would likely be inapplicable to a mutual fund investment. We would like to further discuss this section if we are selected.
- A24. e. **Please list this as a variance for the Board to review and consider it.**
- f. Clause 14.c: This provision would likely be inapplicable to a mutual fund investment. We would like to further discuss this section if we are selected.
- A24. f. **Please list this as a variance for the Board to review and consider it.**
- g. Clause 23: This provision would likely be inapplicable to a mutual fund investment. We would like to further discuss this section if we are selected.
- A24. g. **Please list this as a variance for the Board to review and consider it.**
- h. Clause 24 and 42.b.: We interpret these provisions to permit the CONTRACTOR to provide information, data and any other material to a government regulator of competent jurisdiction where required by law. *“Please confirm that the STATE is in accordance with such interpretation.”*
- A24. h. **Yes, the Contractor is required to comply with all laws.**
- i. Clause 31 and 42.e: We interpret these provisions to permit the CONTRACTOR to comply with any and all record retention requirements to which it is subject under other federal or state law. *“Please confirm that the STATE is in accordance with such interpretation.”*

- A24. i. **Yes, the CONTRACTOR is required to comply with all federal and state records retention provisions.**
- j. Clause 37: We do not believe the General Conditions set forth all of the agreements, conditions, understandings, promises, warranties and representations relative to this contract. If we are selected for a mutual fund vehicle, the fund's prospectus would control the terms of the relationship.
- A24. j. **The State enters into an "Agreement for Investment Product(s)" with every investment product provider in the Plan, and the fund's prospectus would be made a part of the agreement.**
- k. Clause 40: This provision would likely be inapplicable to this relationship. We would like to further discuss this section if we are selected.
- A24. k. **Please list this as a variance for the Board to review and consider it.**
- Q25. *"Do you have a preference for Active vs Passive?"*
- A25. **No. The Board will consider and evaluate both active and passive options.**
- Q26. *"Do you require any revenue sharing?"*
- A26. **No, revenue sharing is not a requirement for this RFP.**
- Q27. *"Do you have a preference for Mutual Funds vs Collective Trusts? Would a collective trust format be an acceptable structure?"*
- A27. **The Board is seeking an investment vehicle that provides the best pricing structure, regardless of the type of investment vehicle.**
- Q28. *"Will you accept 3Q data where 4Q data is not available?"*
- A28. **It is preferable to have 4Q data; however, the Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.**
- Q29. *"Can you confirm this is a 457(b) plan?"*
- A29. **The State of Hawaii Deferred Compensation Plan is a section 457(b) plan.**
- Q30. *"For pooled vehicles, is it required that the investment adviser or distributor of the pooled vehicle (and/or trustee for CIT vehicles) be licensed to do business in the State of Hawaii, or is it only necessary for the pooled vehicle itself be available for sale in Hawaii?"*
- A30. **The Offeror must be licensed to do business in the State of Hawaii.**
- Q31. *"For pooled vehicles, is a separate IMA required, or is the typical documentation for investment in the pooled vehicle sufficient (participation agreement or mutual fund selling agreement?"*

A31. The State enters into an “Agreement for Investment Product(s)” with every investment product provider in the Plan, and may additionally enter into the Contractor’s form of participation agreement when investing in collective investment funds.

Q32. *“Regarding item VII.B.9.d and the required Executive Summary, are the sixteen (16) copies of the Executive Summary to be provided in paper format only or some combination of paper and electronic format (i.e., like the proposal itself)?”*

A32. The sixteen (16) copies of the Executive Summary should be provided in paper format; however, the electronic format of the written proposal response should also include a copy of the Executive Summary as an attachment.

Q33. *“Regarding the Board’s right to select more than one Target date Fund Investment Option and communicate its decision prior to the finalist interviews, will the Board provide offerors with possible rationale and intended goal for offering more than one option?”*

A33. Yes.

Q34. *“For the requested data in Appendix E, do you require that all data is as of December 31, 2017? Is it acceptable to provide data as of September 30, 2017 if such is not available as of year-end by the RFP deadline? Particularly, is it acceptable to provide attribution, glide path, firm AUM and personnel data as of September 30, 2017?”*

A34. See, Q&A #22.

Q35. Section II.A.: *“Please confirm that the State’s Plan is intended to satisfy the requirements for an eligible deferred compensation plan under Section 457 of the Internal Revenue Code, as amended (the “IRC”), applicable to governmental employers described in Section 457(e)(1)(A) of the IRC (i.e., a State, political subdivision of a State), and is exempt from Federal income taxation under Section 457(g) of the IRS Code. Further confirm that the State will make Plan documents available to the selected Contractor.”*

A35. Yes, the State of Hawaii Deferred Compensation Plan is a section 457(b) plan. And, Plan documents will be available to the selected Contractor.

Q36. Section II.A.: *“Does the Plan Document authorize the Plan to participate in collective or commingled trust funds and if so, does (or will) the Plan specifically or in substance and effect adopt the governing instruments of such funds in which the Plan participates?”*

A36. Hawaii Revised Statutes Section 88E-9(c) provides that the investment products permitted under the plan, “... may include annuities, life insurance, savings accounts, mutual funds, or other types of investment products that are commonly offered by the board to be reasonably prudent investment products.

Q37. Section II.A.: *“Does the Plan document expressly and irrevocably provide that it is impossible for any part of the corpus or income of such Plan to be used for, or diverted to, purposes other than for the exclusive benefit of its participants and their beneficiaries.”*

A37. Hawaii Revised Statutes Section 88E-8 provides as follows, “Sums deferred under the

plan, as well as property and rights purchased with such amounts and income attributable to such amounts, shall be held in trust outside the state treasury in accordance with section 457 of the Internal Revenue Code of 1986, for the exclusive benefit of participants and their beneficiaries.”

Q38. Section III.B.2.e.: *“Please elaborate on the ‘stand-alone investment option mandate’ requirement. Specifically, does a collective investment vehicle in which the Plan has an undivided proportionate interest in all assets of the fund satisfy this requirement?”*

A38. The Offeror shall have the ability to accept the mandate to invest \$100 million in the proposed Target Date Fund series.

Q39. Section IV.B.1.a.: *“Please confirm that the restrictions on changing a ‘subcontractor’ without prior approval of the State would not apply to Contractor’s ability to add or remove investment advisers managing portions of assets held by, or funds or pooled vehicles held within, collective investment vehicles.”*

A39. Please list this as a variance for the Board to review and consider it..

Q40. Section IV.C.21.: *“Please confirm that this requirement is met by holding the Plan’s assets invested in a collective investment vehicle at all times within a domestic trust in the U.S.; or otherwise please describe in detail how this requirement is customarily satisfied with regard to the State’s plan assets invested in collective investment vehicles.”*

A40. Please describe how assets in a collective investment trust cannot be diverted (through business failure or otherwise).

Q41. Section VI.K.1.b.1.: Contractor’s insurance policy does not contain the language provided in the proposed clause; however, the Contractor can provide prior notice of canceling, limiting the scope of coverage or nonrenewal of insurance. The Contractor’s carrier will provide the Contractor with such notice (in which case the Contractor will notify the Plan); however, the carrier will not provide notice to the Board of Trustees of the Plan. *“Please confirm that this arrangement is acceptable.”*

A41. With respect to section VI.K. (“Insurance”), please list this as a variance and the Board will consider it.

Q42. Section VI.K.b.2. and VI.K.b.3.: Contractor’s insurance policy does not contain these clauses. *“Are they mandatory requirements?”*

A42. See, Q&A # 41.

Q43. Section VI.K.2.: *“Please confirm that the professional liability insurance coverage required pursuant to Section VI.K.1.b satisfies the errors and omissions liability insurance policy requirement of Section VI.K.2.”*

A43. With respect to section VI.K. (“Insurance”), please list this as a variance and the Board will consider it.

Q44. Section VI.K.3.: Contractor does not furnish copies of its insurance policies to outside parties.

"Please confirm that the provision of the certificate(s) of insurance to the State during the entire term of the Contract is acceptable."

A44. Please list this as a variance and the Board will consider it.

Q45. Section VII.B.4 and Appendix C.: *"Please elaborate on the Wage Certification requirement and the classification plan of the State of Hawaii, and how these requirements are customarily satisfied with regard to the State's plan assets invested in collective investment vehicles."*

A45. The Offeror must certify that they are paying its employees at least the same wages that State employees would get for similar work, but only if those kinds of positions are listed in the State's Compensation Plan. For a complete list, please visit:

<https://dhrd.hawaii.gov/wp-content/uploads/2012/12/Compensation-Plan-complete.pdf>.

Q46. Section VIII.F.1.: *"Please confirm that the State will enter into Contractor's form of participation agreement to be eligible to invest in collective investment funds, subject to the terms of the funds' Declaration of Trust."*

A46. The State enters into an "Agreement for Investment Product(s)" with every investment product provider in the Plan, and may additionally enter into the Contractor's form of participation agreement when investing in collective investment funds.

Q47. Section VIII.F.2.: *"Please confirm whether the General Conditions in Appendix "D" are reasonably negotiable, particularly to the extent certain conditions may conflict with the terms and conditions contained with the investment's governing instruments."*

A47. Please list this as a variance for the Board to review and consider it.

Q48. Section II.A.: *"Please confirm that the State's Plan is intended to satisfy the requirements for an eligible deferred compensation plan under Section 457 of the Internal Revenue Code, as amended (the "IRC"), applicable to governmental employers described in Section 457(e)(1)(A) of the IRC (i.e., a State, political subdivision of a State), and is exempt from Federal income taxation under Section 457(g) of the IRS Code. Further confirm that the State will make Plan documents available to the selected Contractor."*

A48. See, Q&A #29 and #35.

Q49. For the three year track record, our investable fund will have three years as of the launch date (which, as per RFP, is projected to be August 2018). In addition, the Lifetime Indices on which the funds are based were created in 2009. *"Would this suffice for the 3 year track record?"*

A49. A strategy with a less than a 3-year track record will not automatically be rejected, if the investment manager can demonstrate its process and historical results have high correlation to the target date portfolios style.

Q50. *"Would the selected target date fund option be used as the default investment option for the plan going forward?"*

A50. Yes.

Q51. Per our reporting process, assets under management and firm personnel data for 4Q2017 will not be publicly available by the RFP deadline. Therefore, we would like to request that we submit all the above data as of September 30, 2017. We will provide updated figures as soon as they become available.

A51. **It is preferable to have 4Q2017 data; however, the Board will evaluate all Proposals under the Evaluation Criteria specified in the RFP.**

Q52. *“Is revenue sharing a requirement for this RFP?”*

A52. See, Q&A #26.

Q53. For this opportunity, we would like to propose our Target Date Retirement Income Funds, institutional mutual funds that were launched in November 2015. While the target date funds have less than a 3-year track record, the underlying funds used in the target date portfolios are mature portfolios – most of the underlying strategies are more than 10 years old, and some have been in existence more than 20 years. In addition, the target date funds currently have \$578 million in assets under management. *“Could you please advise if our proposal with the Target Date Retirement Income Funds option could be accepted given the track record?”*

A53. **A strategy with a less than a 3-year track record will not automatically be rejected, if the investment manager can demonstrate its process and historical results have high correlation to the target date portfolios style.**

BRIAN T. MOTO
Chairperson
Board of Trustees
State of Hawaii
Deferred Compensation Plan