PLANS MANAGEMENT BOARD POLICY [__]

ALLOCATION AND PAYMENT OF PLAN EXPENSES

PURPOSE

This policy governs the use of State administrative fees ("Fees") collected from participants in the plans (the "Plans") overseen by the Plans Management Board (the "Board"). Fees shall not be disbursed except in accordance with this policy.

POLICY

Unless otherwise directed by the Board, the Office of the State Treasurer ("OST") shall have authority to disburse Fees to pay Plan expenses in accordance with the general approval requirements and attribution and allocation rules set forth in Sections A and B below. All decisions shall be documented in writing, and such documents shall be retained, in accordance with the requirements of Section C below.

A. General Approval Requirements

Prior to the disbursement of any Fees, OST staff shall ensure that the following general requirements are satisfied:

1. *Permissible under Applicable Laws and Regulations.* No Fees shall be used to pay Plan expenses if such disbursement would be prohibited by applicable laws or regulations.

2. *Permitted by Plan.* No Fees shall be used to pay Plan expenses unless (a) expressly authorized by the applicable Plan document, or (b) the Plan document is silent regarding the payment of administrative expenses.

3. *Direct Expenses*. No Fees shall be used to pay Plan expenses unless such expenses are direct expenses of the Plan. For purposes of this requirement, an expense shall be a "direct" expense if the State would not have incurred it "but for" the existence of the Plan(s). OST should consult outside counsel and/or relevant guidance when interpreting this requirement.

4. *Reasonable Expenses*. No Fees shall be used to pay Plan expenses unless such expenses are reasonable. No Plan expense shall be deemed "reasonable" unless it is reasonable in amount after considering all relevant facts and circumstances. In addition, except as provided in the immediately following sentence, no Plan expense shall be deemed "reasonable" if it was incurred in the performance of settlor functions, expenses for which the State, as the Plan sponsor, should reasonably be expected to bear the cost in the normal course of its business operations. For purposes of this policy, expenses incurred in connection with the marketing of the State's college investment Plan are "reasonable" if (a) in consultation with outside counsel if deemed necessary, it is determined that such activities do not constitute settlor functions, and (b) such expenses otherwise meet the requirements of this Subsection A.5. OST should consult outside counsel and/or relevant guidance pertaining to "settlor functions" when interpreting this requirement.

5. *Adherence to Budget.* Absent Board approval, OST shall not disburse Fees in excess of the line-item amounts set forth in the annual budget approved by the Board.

B. Attribution and Allocation Rules

In addition to the foregoing approval requirements, prior to the disbursement of any Fees, OST staff shall ensure that Plan expenses are attributed and/or allocated to the appropriate Plan. In making such determinations, OST staff shall adhere to the following rules:

1. *Attribution*. Plan expenses should be attributed to the Plan that incurs the expenses. No Plan should pay for administrative expenses directly incurred by or otherwise attributable to another Plan.

2. *Allocation, Generally*. Where Plan expenses are attributable to more than one Plan, the expenses should be allocated across appropriate Plans using the

methodologies listed below, if applicable, or another reasonable allocation method approved by outside counsel.

3. [*Sub-Allocation of 403(b) Expenses*. Expenses properly attributed to the 403(b) Plan should not be paid with Fees collected from participants in a group contract by the current Plan provider, Voya Institutional Trust Company, or its affiliates, from and after September 2016 if such expenses were incurred in connection with services that were not for the general benefit of 403(b) participants, but rather exclusively benefitted either (a) participants with individual contracts issued by a vendor authorized under the 403(b) Plan between January 2009 and September 2016 (often referred to as the "legacy" accounts), or (b) individuals with individual contracts issued by a vendor prior to January 2009 (often referred to as the "orphan" accounts)].

4. *Allocation of OST Staff Expenses*. Expenses for salaries and benefits for OST staff who support the Plans (other than the ABLE plan) full time may be allocated pro rata across such Plans based on asset values and consistent with the recommendations of outside counsel. OST shall on an annual basis, or whenever circumstances indicate that a reasonableness assessment would be appropriate (*e.g.*, a change in job responsibilities), test the reasonableness of the asset-based allocation method and determine whether a different methodology (*e.g.*, allocation based on employee time) should be utilized.

5. *Rules for Attorneys Fees and Expenses*. Outside counsel who support the Plans must bill each Plan separately. Where attorney time is spent or expenses are incurred across multiple Plans, outside counsel should allocate time and expenses equally among such Plans to the fullest extent possible unless doing so would be unreasonable.

C. Documentation and Retention

In addition to the foregoing approval requirements, prior to the disbursement of any Fees, OST staff shall ensure that all decisions relating to Fees required under this policy, including outside counsel advice, are documented in writing. All such documents shall be maintained by OST in accordance with a retention schedule approved by the Board.

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