

**STATE OF HAWAII
DEFERRED COMPENSATION PLAN
BOARD OF TRUSTEES**

**OPEN SESSION MINUTES
MEETING # 420**

Date: March 5, 2018

Place: Department of Human Resources Development
14th Floor Merit Appeals Board Conference Room
235 South Beretania Street, State Office Tower
Honolulu, HI 96813

Present: Brian Moto, Chairperson
Ryker Wada, Ex-Officio Member
Ken Kitamura, Ex-Officio Member
Roderick Becker, Employee Member
Kenneth Villabrille, Employee Member
Kalei Rapoza, Employee Member
Kanoë Margol

Others: Krishna Jayaram, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Glenn Ezard and Wendy Carter, Segal Marco Advisors
Kevin Malmud, Plan Administrator Staff (Prudential)/Honolulu Office
Grace Baracao, Plan Administrator Staff (Prudential)/Honolulu Office
Jeanne Kanai, Plan Administrator Staff (Prudential)/Honolulu Office
Julie Klassen and Carol Blumenthal, Prudential Retirement
Deborah Baran, Prudential Retirement – via conference call

Call to Order: There being a quorum present, Chairperson Brian Moto called the meeting to order at 9:00 a.m.

Agenda: The agenda for this meeting was filed with the Office of the Lieutenant Governor, as required by Hawaii Revised Statutes section 92-7.

Chairperson Moto welcomed everyone and noted that all trustees are present. He introduced two incoming trustees to today's meeting. First is Trustee Ryker Wada who is the interim director of DHRD and is serving as the ex-officio member on the Board; and second is Trustee Ken Kitamura who is the deputy director of B&F and replaces Director Laurel Johnston as the designated representative. Trustee Kitamura is serving as the ex-officio member on the Board. Chairperson Moto stated that there were no guests from the public in attendance.

Agenda

Item # 1:

New Business

a. Approval of Minutes Nos. 419 and 416-ES

Chairperson Moto stated that the minutes no. 419 for the February 15, 2018 meeting was distributed for advance review, and minutes no. 416-ES for the September 20, 2017 meeting has been distributed for review at the meeting.

A motion was made by Trustee Becker and seconded by Trustee Margol to adopt Minutes Nos. 419 and 416-ES, as presented. The motion passed unanimously.

Chairperson Moto moved to Agenda Item no. 1.b., and turned the discussion over to Ms. Carter and Mr. Ezard.

b. Segal Marco Advisors Annual Deep Dive Plan Analysis

Ms. Carter opened with remarks on the legal and regulatory updates:

- In December 2017, when the new tax bill came out, the legislation on the time frame for repaying loans has been extended from the 60 days from the time of distribution to the due date for the filing of taxes in the following year. It provides for a longer time frame to repay and make up the loan balance.
- The DOL fiduciary rule has been extended to July 2019. The State's Plan does not use the types of advisors who may be affected by this rule.
- IRS issued a favorable private letter ruling on auto enrollment to a public sector governmental plan, so plans have some guidance on implementing auto enrollment.

Observations on Behavioral Economics:

- The Plan encourages employees to enroll and increase deferrals. New tools have been developed to assist plans with educating individuals who have emotional behaviors that inhibit their ability to save. The goal is to facilitate good behavior and actions, and to promote an understanding of compounding interest and improve retirement outcomes.
- In looking at the comparative studies, the influences on individual behavior and what they do, it was found that designing effective communication is key to presenting information, such as keeping information simple so as not to overwhelm participants with information. Also, key is to get individuals to act right away because the longer they think about it the less likely they will be to act.
- Observations reveal that employees have intentions to save but there is a low number that actually follow through; objective would be to

capture energy to act now versus later.

- Communicating what life would be like in the future helps strengthen the message on the importance of saving early.

Keys to improving outcomes:

- Establishing personal relevance (e.g., looking at yourself)
- Trigger on reactions; focus attention on what they want to do in their retirement.
- Channel direction by communicating the ease of signing up and removing obstacles to taking actions.
- Keep materials simple, personalized, and targeted; and get feedback from participants on what they value.

Ms. Carter stated that Prudential will discuss how their efforts on their education efforts were developed to meet the recommended deep dive initiatives from last year by Segal.

Agenda

Item # 2:

Ongoing Business

a. Prudential's Report on Goals and Performance Metrics During the Initial 5-Year Contract Period

Ms. Klassen presented the metrics of the Plan since transition to Prudential in 2013. During the 5-Year period:

- The number of total accounts, Plan assets and the contributions have grown.
- The outflows have grown too, in part, due to the distributions by the growing number of maturing participants.
- The number of individual accounts have grown; the number of active participants has varied.
- Participation and Plan assets within the GoalMaker have grown.
- The reduction of TPA fees from 19.3 basis points with the prior TPA, to 12.5 basis points with Prudential, and to 11 basis points, with the last extension, to be effective on or about April 1, 2018.
- The reduction of managed account fees from 60 basis points with the prior service provider to 35 basis points with the current service provider.
- For the servicing of the Plan, the Local Office staff has 7 dedicated members, including field counselors; providing Plan-level services from Prudential, there are Ms. Klassen, Ms. Blumenthal, Ms. Baran, and the Executive management team of Gabe D'Ulisse and Rob Luciani.
- Prudential's educational efforts have been to focus on the DOE and the

UH due to the competing plans within these areas. Extracting the DOE and the UH from the Plan, the participation rate is 48%, and with the DOE and the UH, the participation rate is 28%.

Ms. Klassen reviewed the changes in participation rates over the past 5-Years, and the overall consistent rate of the Hawaii Stable Value Fund.

Trustee Becker was excused at 9:43 a.m.

Mr. Malmud presented an overview of the accomplishments over the past 5-Year period, and looking at various strategies because of the age of the Plan and the maturing participants:

- The stability during the period with the carryover of the 6 local office team members from the prior TPA. The only change was Mr. Malmud who joined at the time of the Plan's transition.
- There has been an increase in the number of enrollments and in participant meetings, both group and individual meetings, in the past 12 months.
- There was a positive cash flow in 2016 whereby contributions and rollovers-in exceeded distributions.
- There has been a 30% increase in usage of the asset allocation tools.
- There has been an increase in the number of relationships forged with the union organizations and in the Plan's attendance at union-related events (e.g., HSTA Teacher Institute Day events).
- There has been an improved relationship with the UH system in scheduling events, and with the DOE to increase Plan awareness.
- Partnered with DOE and UH to create a video which is on theirs and the Plan's websites.
- Group meetings have exceeded contractual goals in each of the years.

Ms. Baran presented an overview on the communication efforts and campaigns conducted:

- The Plan has been recognized by NAGDCA (National Association of Government Defined Contribution Administrators) in 2014, 2015, and 2016, surrounding education and communication.
- The Plan's custom website was redesigned and launched in 2017 which includes a custom video on the Plan.
- The resources have been improved on the website: upgrades on web access are designed for millennials; and more participants are using the available tools.
- Custom materials have been developed for the Benefits Fairs, such as the development of a new presentation designed for millennials.

- Projects have included open house events and the development of a cultural presentation; they are continuing to work on and execute new projects.
- Projects developed for the Benefits Fairs activities have included a longevity challenge designed to start a conversation and see how employees connect with someone who has had a long life to their future selves in retirement; and an aging booth for employees to also see their future selves and how to prepare financially. The attendees and comments from the survey have noted the beneficial information available at the Fairs.
- Developing activities that address behavioral challenges such as procrastination and overreaction.

In response to Trustee Rapoza's question, Ms. Baran responded that the website refresh project will be submitted as a NAGDCA award nomination.

Chairperson Moto commented that in order to reach and convince the millennial population, the retirement counselors would need to tailor and gear their communication efforts towards the millennials. Possibly Prudential may want to consider putting together testimonials from their peers. This may aid in the communication efforts. Mr. Malmud remarked that his team of counselors carry years of experience in communicating across the age population, and he will look at possible testimonials from the younger population. He added that he has observed the younger population does have an interest in saving for the future.

Ms. Carter added that effective outreach is also due more to the communication skills of a counselor rather than being in the same age group.

Chairperson Moto stated that from the discussion areas from the last deep dive analysis, he has received feedback from participants that were centered on:

- Minimizing and keeping fees low;
- Technical issues on the website; and
- Inclusion of a Roth option.

Ms. Carter, Mr. Malmud, and Ms. Blumenthal offered the following comments regarding the inclusion of the Roth option:

- The Roth option has been around for a while, so adding the option makes sense; and there has been a growing interest from both the younger and the older population.

- The challenge with adding the Roth option to the Plan would be ensuring that the payroll deductions are assigned correctly. Central Payroll is currently having upgrades done which should help minimize these concerns.
- For other plans, the usage has been low, and in general plans have had challenges with the payroll systems that are in place. With the addition of the Roth option, the record keeping administrative challenge would be to monitor the annual limits closely. Prudential is monitoring and working with the State and the counties on the payroll system upgrades.

Mr. Malmud summarized the 2018 initiatives:

- Since Prudential does not receive the information for non-participants, the educational outreach initiatives are limited and Prudential is looking at ways to reach that population and to partner with the State on initiatives.
- The most effective communication effort has been the take-action card which results in employees taking action immediately.
- The RIC (Retirement Income Calculator) tool has been able to help employees reach their goals.

Trustee Rapoza asked Prudential to submit a similar report in advance of the next renewal period, to supplement the renewal extension, and to help reinforce the work that Prudential is doing.

Chairperson Moto stated that for this meeting the purpose was to go over the deep dive analysis, to give the Board more time to consider any future actions, and therefore, the Board will take up next steps at a future meeting. There were no objections by the Board members.

Chairperson Moto stated that for the record, the agreement letter to extend Prudential's current contract agreement for the next 3-Year period will be executed today. The renewal period will be through June 30, 2021. The renewal agreement letter also includes a fee reduction of the TPA administrative fees from 12.5 basis points to 11 basis points, effective on or about April 1, 2018.

Chairperson Moto returned to Agenda Item #1.c.

Agenda
Item # 1:

- c. Segal Marco Advisors Recommendations with respect to the Investment Policy Statement and Potential Action Thereon

Mr. Ezard reviewed the proposed revisions to the Investment Policy Statement. The proposed revisions would:

- Cover updates to the indexes and asset categories.
- Align the language pertaining to investments with the statutes.
- Align changes between market duration bond and core bond strategies.
- Distinguish differences between U.S. and Non-U.S. investment strategies.
- Update investment options to an appropriate benchmark in fixed income.
- Change the chart to the table of assumptions on return/risk to be more helpful.
- Remove investment vehicle shown as an item description, as this could change in the future.
- Update to the proper benchmark and names of the investment categories.

Other options for the Board's future consideration are two additional asset classes:

- Add global equity which would bring options together and streamline the equity portion of the portfolio.
- Add hedge funds which are liquid alternative strategies offered through the 40 Act mutual funds and have daily liquidity; the returns would be better than bonds and Stable Value, with a lower risk profile. It is market neutral and has a lower correlation to the rest of the market.

The Board requested to have more education and background on these added categories and would like to continue discussing at a future meeting. Mr. Ezard noted that the draft changes to the Investment Policy Statement is still pending legal review. The Board deferred decision-making on the proposed changes to a future meeting.

Chairperson Moto proceeded to Agenda Item 2.b.

Agenda
Item # 2:

- b. Discussion and Potential Action on the Release and Posting of the Investment Consultant's Report on the Island Savings Plan website

Ms. Akiyoshi highlighted the concerns and considerations discussed at the

February 15, 2018 meeting. The options for the Board's consideration are:

- 1) To maintain the current practice of Segal presenting its report to the Board at meetings. The report would be made available upon request by the public.
- 2) To post excerpts of the reports, as suggested by Segal.
- 3) To post the Investment Consultant's report on the Plan website.

Ms. Klassen remarked on the Board's previous discussion on whether to post the Investment Consultant's report on the Plan website. She stated that Prudential is able to post the report; however, she noted that the report is not tailored for participant's use. The report could generate more questions to the staff and counselors and would not be able to answer since they are not part of the preparation of the report. Posting of the report may be counter-intuitive to the dynamics of keeping the information simple.

Ms. Akiyoshi referred to a sample printout of the Investment Performance report that is displayed on the Plan's website for use by participants in comparing the investment options, including Fund Fact sheets for each of the investment funds.

Trustee Rapoza added that the information in the Investment Consultant's report is not current and provides point-in-time information.

Mr. Ezard stated that a report for a participant's use would be different than a report prepared for a Board's use. Therefore, releasing the report would place a burden on Prudential to respond to information that is not Prudential's information.

Chairperson Moto stated that no further action will be taken on this agenda item. There were no objections.

Agenda

Item # 3:

Other Business/Announcements

a. Upcoming Scheduled Board Meetings

Ms. Akiyoshi provided a recap of the upcoming Board meetings that have been scheduled: the next meeting will be on March 20, 2018, related to the RFP on the Target Date investment option, and the Semi-Annual meeting on May 24, 2018, in conjunction with the Benefits Fair.

There was no other business. Chairperson Moto stated that the next

agenda item #4 is procurement-related and the Board will move into Executive Session.

Agenda

Item # 4: Discussion on RFP No. DCP-17-1, Request for Proposals for a Target Date Fund Investment Option

- i. Review and Evaluation of Proposals, Identification of Priority-Listed Offerors
- ii. Scheduling of Interviews with Priority-Listed Offerors

A motion was made by Trustee Margol and seconded by Trustee Rapoza to move into Executive Session at 10:49 a.m. to confer with the Plan's legal counsel and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303. The motion passed unanimously.

EXECUTIVE SESSION

Chairperson Moto called a short break and all guests were excused. The meeting resumed at 10:56 a.m.

Meeting

Reconvened: **A motion was made by Trustee Wada and seconded by Trustee Rapoza to move out of Executive Session at 11:53 a.m. The motion passed unanimously.**

There was no other business. Chairperson Moto thanked everyone for attending today's meeting.

Chairperson Moto adjourned the meeting at 11:54 a.m.

(NOTE: Signed copy on file.)