

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

**OPEN SESSION MINUTES  
MEETING # 429**

Date: March 8, 2019

Place: Department of Human Resources Development  
14<sup>th</sup> 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  
Robert Yu, Ex-Officio Member  
Kalei Rapoza, Employee Member  
Kalbert Young, Employee Member

Others: Christopher Leong, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Craig Chaikin, Segal Marco Advisors  
Kevin Malmud, Plan Administrator Staff (Prudential)/Honolulu Office  
Jeanne Kanai, Plan Administrator Staff (Prudential)/Honolulu Office  
Grace Baracao, Plan Administrator Staff (Prudential)/Honolulu Office  
Julie Klassen, Prudential Retirement  
Carol Blumenthal and Deborah Baran, Prudential Retirement – via  
conference call

Call to Order: There being a quorum present, Chairperson Brian Moto called the meeting to order at 9:04 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 to the first meeting of 2019 and proceeded with introductions, including incoming Trustee Robert Yu from the Department of Budget and Finance.

Agenda

Item # 1: Welcome and Introduction of New Incoming Board Member

Chairperson Moto welcomed Trustee Yu who is the Deputy Director at the Department of Budget and Finance and is serving as an ex-officio member and

representing the newly appointed Director of Budget and Finance, Roderick Becker. Chairperson Moto also congratulated Trustee Young on his Senate confirmation to the Board during this Legislature's session. Introductions continued. Guests in attendance from Prudential Retirement included Julie Klassen. Attendees via the conference call included Carol Blumenthal and Deborah Baran, from Prudential Retirement. Chairperson Moto noted that there was no one from the public present to testify.

Chairperson Moto proceeded to Agenda Item no. 2.

Agenda

Item # 2: Approval of Minutes Nos. 425-ES for the August 10, 2018 meeting and 428 and 428-ES for the December 7, 2018 meeting

There were no corrections to Minutes 425-ES, 428, and 428-ES by Board members.

**A motion was made by Trustee Wada and seconded by Trustee Rapoza to adopt Minutes Nos. 425-ES, 428 and 428-ES, as prepared. The motion passed unanimously.**

Agenda

Item # 3: Discussion on the Board and Staff's Respective Roles in Dealing with Other Entities

Chairperson Moto stated that Trustee Wada has asked that this item be added to today's agenda.

Trustee Wada explained his request to place this item on today's agenda as a follow-up to the Board's last meeting:

- The Board had discussed the deferred compensation plan issues and difficulties with the new HawaiiPay modernization system.
- He felt that the discussion had not finished completely. Some Board members at that time felt that it was not necessary for the Board to continue the discussion on a deeper level.
- As the DHRD Director he manages the staff and works with the Benefits Office staff and the Board's staff. He asked the Board to reconsider that position on discussing the issues and pointed out that unlike other similar boards, Ms. Akiyoshi serves as the only Board staff to handle Plan issues.
- When there are operational issues, there needs to be someone to assist Ms. Akiyoshi and to advocate for the position of deferred compensation.
- As a part of the Board's fiduciary duties, he feels that the Board needs to take a more active role with the issues of the Board because, for example, the HawaiiPay payroll project issues with the deferred compensation plan revolved around transactional and money matters.

- One of the bigger issues was the missed vacation payouts where checks were issued to employees instead of a deferral to the Plan. Although most deferrals were corrected, some employees elected not to correct and make that deferral.
- For the transactions where an employee elected to make investments in the fund, and the election did not occur, there may be potential costs. The responsible party is responsible for loss in the investment value if the market value of the investment appreciated. But, the question then becomes who is responsible to cover the amount of the loss. Trustee Wada stated that he cannot have the Board staff advocate for this position.

Trustee Rapoza commented that at that time it seemed there was not adequate information to continue the discussion and felt it may be better to cover the issues outside of the meeting with the individual entities. He concurred that the Board does have a duty to support the Board's staff members, and he stated that he would be in support of an ad hoc committee of the Board to assist in seeking out the information and solutions and then bring back to the Board for discussion and decision.

Chairperson Moto noted that there have been some tough questions raised on all kinds of topics in dealing with various parties and suggested that if the Board agrees, a committee be established to cover a range of issues.

**A motion was made by Trustee Wada and seconded by Trustee Rapoza to establish a committee to resolve operational issues. The motion passed unanimously.**

Nominations from the Board members included Trustee Rapoza and Trustee Young who agreed to serve for a temporary period.

The Board discussed the purpose of the committee:

- Ms. Akiyoshi stated that the types of issues that the committee may need to review would be those that would require Board direction.
- Chairperson Moto noted that the Board would need to decide on the scope of the committee's authorization.
- The Board also discussed the kinds of issues that the committee could potentially handle, such as proxies that come in and ongoing payroll issues that have not been addressed adequately.
- Chairperson Moto stated that the committee may also need to handle issues that may require a timely response, and which cannot wait until the next meeting. Those committee actions can be ratified at the next meeting.
- Trustee Rapoza commented that if there were certain decisions that are delegated to Board staff, then he felt that the committee could provide

guidance and support those decisions. However, he added that he was uncertain whether the committee could be charged with making decisions, but instead that the committee would flush out some of the details of the issues and bring back to the Board.

- Chairperson Moto asked the committee to get together with Board staff and legal counsel to define the scope of what types of issues the committee will be assisting with and bring the committee's recommendations including any suggested delegations to the next meeting.
- Trustee Wada stated that to have another responsible party from the Board to go and talk with ETS would help to resolve the outstanding issues.
- Mr. Malmud added that subsequent to the last Board meeting, Prudential did have a meeting with ETS which has resulted in some positive changes in the relationship and communication, including with the departmental agencies.

**A motion was made by Trustee Wada and seconded by Trustee Yu to appoint Trustee Rapoza and Trustee Young to serve on the subcommittee to resolve operational issues. The motion passed unanimously.**

#### Agenda

Item # 4: Performance Evaluation Report for the Fourth Quarter 2018 by Segal Marco Advisors, including but not limited to:

- a. Overview of Funds Currently on the Watch List: Wellington Management Research Value Fund
- b. Other Investment Fund Updates
  - i. Status on the Transition and Launch of the Vanguard Target Date Retirement Series

Mr. Chaikin provided a brief market commentary on the Fourth Quarter 2018 and additional updates to current period:

- The market was volatile at the end of the Fourth Quarter 2018; on December 24, 2018, the market fell and then on December 26, 2018 the market recovered and then fell again. At the end of the Fourth Quarter, the market took equities into negative territory for 2018, leaving the assets down slightly at the end of the Fourth Quarter 2018.
- In 2019, January and February have been good.
- Economic fundamentals in the U.S. are in a good position.
- Corporate earnings have been good, the job market has been okay, and there has been positive wage growth. Inflation remains under control.
- There are market risks such as geopolitical tension starting with the U.S. government shutdown in 2019.

- There are continued negotiations between the U.S. and China on trade and tariffs.
- Outside the U.S., Brexit is still not resolved, and it is not known how U.K. will exit the eurozone.
- The Federal Reserve System is taking a cautious look at fundamentals before raising rates.
- Shorter term interest rates are higher than longer term interest rates and this raises investment concerns on what happens in the future. 2-Year Treasuries are at 2.47, and 5-Year Treasuries are at 2.44, reflecting a small inversion. An inverted yield curve may indicate that recession could be down the road.
- For 2019, the forecast is a stronger economy in the U.S., while the economy is shakier outside the U.S.

Plan Investment Highlights:

- The Stable Value Fund still holds the largest amount of assets.
- The current LifeCycle Funds will be transitioned to the Vanguard Target Date Retirement series. The funds will be mapped like-to-like.
- The next fund with the largest amount of assets is the BlackRock Large Cap Index Fund.
- The new Vanguard Target Date Retirement series will have 10-year increments instead of the current 5-year increments. Ms. Klassen added that the transition will take place on April 1, 2019. Communications on the change have started.
- The performance for the Wellington Research Value Fund did lag for the Fourth Quarter 2018; the fund was placed on the watch list at the September 2018 meeting. Segal recommends keeping the fund on the watch list.

Mr. Chaikin summarized the Board's decision to establish an alternate competitive bidding process in lieu of the State's procurement process. He stated that historically the investment options have been publicly procured. However, typically in these retirement plans it has not been common for public plans to publicly procure the investments because of the overhead involved and the scope of what is out in the market. He reported that he met with Board staff and legal counsel to discuss an alternate competitive bidding process that would compress the search process timelines.

- The average weighted cost among the Plan's investment options is 31 basis points which is good. With the move from the LifeCycle funds to the Vanguard funds, the average weighted cost should be lower.
- The costs for the LifeCycle Funds range from 34 basis points to 54 basis points.

- For the investment scorecard, many of the funds were in the negative but with respect to performance there are no red flags.
- The State Street Real Asset Fund, which are primarily commodities, decreased by 9% in the Fourth Quarter 2018. The fund's benchmark is a more long-term metric, so it is not an apples-to-apples comparison.
- The performance of the Harbor Fund was down due to an underweight in the defensive sectors and not having a strong stock selection. This distracted from the results, but the 3-year and 5-year return numbers are still strong.

Trustee Yu asked if Segal could also include a flash summary of the latest market numbers going forward to bring the performance review up-to-date.

Chairperson Moto proceeded to Agenda item #5.

#### Agenda

##### Item # 5:

#### Overview and Discussion on the Design of the Investment Menu Line-up Structures

Mr. Chaikin stated that at a past meeting, some education was presented on global and liquid alternative options as well as retirement income streams. With new investments available, the question is where would these types of options fit into the Plan's current structure and what does the Board want to have the Plan's investment program look like going forward. There are currently 17 investment options (18 with the Self-Directed Brokerage option).

He presented some considerations:

- Some of the percentage of the asset allocation is driven by the LifeCycle portfolios and by GoalMaker.
- Some of the funds have very few assets, so the funds are not being utilized extensively as a stand-alone option. Reasons could be because participants do not know what the funds are or are newer options. For example, the emerging market fund has about .4% of the total assets. There are 3 international equity investment options that represent 6.6%. Between the four international options it represents about 7% of the total assets. A consideration is to offer a single ACWI-ex U.S. which is all-developed international plus emerging markets, and which will provide diversification.

Mr. Chaikin presented some line-up alternatives:

- Have the investment options in a core space with exposure to both growth and value.

- Have alternative mixes that would prevent participants from over diversifying.
- Alternatives 3 and 4 would be similar to the custom LifeCycle funds.
  - It would be made of multiple fund managers: multi-manager diversified for stable value fund; multi-manager diversified for fixed income option; multi-manager diversified for equity option; the target date series; and the self-directed brokerage option.  
For example, for an ACWI option, it would consist of an allocation of 55 (U.S/Canada)/35 (developed markets around the world)/10 (emerging market). There would be 3-5 managers to cover the Americas, 2-4 managers to cover developed countries, and 1-2 managers to cover emerging markets for up to a total of 11. The option would have a professional allocating the allocations.
  - For a fixed income option, there could be an introduction of and exposure to global fixed income.

In response to Trustee Yu's question on the fee structure and the transfer of assets, Mr. Chaikin stated that the fees would be determined depending on the weighted average of the underlying investment choices. For the transfer of assets, it would depend on the underlying managers. For the existing managers they would receive notice of the mapping to a specific fund and there would be a reallocation of the funds. He commented that some version of Alternative 1 may be more suitable for this Plan. Mr. Malmud added that for the new enrollments, they have seen participants doing less of mixing and choosing their own options and electing either GoalMaker or a LifeCycle option.

Chairperson Moto commented that it would be beneficial to have some information on the feasibility of the transition to the proposals, the effect on the weighted average management fees, and how does the Plan compare with others.

Mr. Chaikin noted that for the next meeting, he will provide some ideas on the mapping using the existing investments and estimated cost of what is in the line-up.

Chairperson Moto proceeded to Agenda item #6.

#### Agenda

##### Item # 6: Plan Account Re-registration and Access Issues on the Upgraded Plan Website

Ms. Klassen explained that the launch of the new Financial Wellness upgrade which provides various financial education and tools, rolled out in December 2018. Prudential did receive many calls:

- Of the 27,775 participant accounts, 15,705 participants have registered.
- 5,020 participants have availed themselves to the new content.

- Some participants did have issues with re-registering. The number of web-assisted calls did increase in December because of the migrations and there were some questions on the content. The call numbers did decrease in January 2019 which is on par with normal numbers.
- In January 2019, there were 2,988 migrations. The number of migrations that required assistance dropped to 2.5% from 7.0% in December. The Call Center did increase support in the anticipation of more incoming calls. The surveys on the migration revealed that 93% stated they were satisfied/highly satisfied.

### Agenda

#### Item # 7: Plan Administrator's Report

Mr. Malmud opened with a presentation to Chairperson Moto of a framed New York Times article which featured the educational activities of the Plan at the Fall Benefits Fair. The article included an interview with Chairperson Moto on the integration of interactive activities to engage attendees and participants and to heighten awareness of the importance of retirement savings.

Ms. Klassen provided highlights for the Fourth Quarter:

- The Financial Wellness platform launched in December 2018.
- The Plan was featured in the New York Times on gamification and the actions taken by employees by the use of the tools.
- Preparations and coordination started for the launch of the Vanguard Target Date Retirement series.
- The NAGDCA statistics show that the average participation rate is 65%; the average rate of participation for the Plan is 46% without the inclusion of the University of Hawaii and the Department of Education because of the competing plan. As the Plan is looking to offer a Roth option, the NAGDCA survey revealed that almost 62% of the plans surveyed have offered a Roth option.
- Prudential has been working on its concierge services as an asset retention service. Prudential is providing support to the Local Office to do reach outs to remind participants of the Plan benefits. Mr. Malmud added that they are working on creating a new internal process with new procedures that will focus on terminated participants. The goal is to address asset retention but with a more hands-on approach. They will also work to address participants with multiple target date funds and provide more education to this group which consists of approximately 480 participants and focus on diversification closer to their age range.
- Asset balance in the LifeCycle portfolios total \$118 million which will be discontinued.
- Usage in the LifeCycle portfolios is about 5.21%; 8.7% in GoalMaker; and there are about 1,400 participants in the Managed Accounts.



- The Stable Value crediting rate for the Fourth Quarter 2018 was 3.18%.
- The current rate of the Stable Value Fund for the First Quarter 2019 is 3.09%.
- There are 289 participants utilizing the Self-Directed Brokerage window.
- There are 3,932 participants invested in the LifeCycle portfolios, of which 719 participants are utilizing one LifeCycle option.
- Included in the report is a survey done by Prudential on exploring financial wellness with diverse populations and the competing priorities among families.

Mr. Malmud presented highlights of the past year and the Local Office activities:

- The total meeting goals for 2018 were met. Meetings for 2019 have been scheduled for the calendar year.
- The retirement counselors have been doing reach-outs and meetings, as illustrated: meetings with 13,000 participants of the 27,000 participants with a balance and brought in \$11 million in rollovers.
- Counselors continue to counsel participants on not needing to take out monies. Of the rollovers out by separated employees, the rollovers out have been participant-initiated. The message from the Prudential counselors have been that participants do not need to make any election at retirement and that they do have access to their monies as well as the other features of the Plan.
- During the times of the recent market volatility, there has been some increase in the phone calls, but it is not relatively high numbers.

#### Agenda

##### Item # 8: Approval of the Plan Audit Report for the PTS Plan for the Plan Year 2017

Ms. Akiyoshi reported that the Board had requested a Plan audit for the Plan Year January 1, 2017 to December 31, 2017, and the TPA, Life Insurance Company of the Southwest (LWS) engaged the services of the auditing firm of Traveller & Company to conduct the audit for the Plan.

The last prior audit was done for the period ending December 31, 2014. The PTS Plan covers all State employees. The County of Kauai entered into a Memorandum of Understanding to join the PTS Plan and started their contributions in September 2017. The audit report covers the contributions from the County of Kauai.

Ms. Akiyoshi noted that there is a reference in the report on the escrow account that is held by LSW. As of December 31, 2017, the escrow account balance was approximately \$116 million which covers the Plan's assets at year end. There were no discoverable findings identified.

**A motion was made by Trustee Young and seconded by Trustee Rapoza to approve the PTS Plan audit report for the PTS Plan Year January 1, 2017 to December 31, 2017, as prepared by Traveller & Company. The motion passed unanimously.**

Agenda

Item # 9:

PTS Plan Ongoing Business

- a. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Periods Ending September 30, 2018 and December 31, 2018
- b. Quarterly Management Reports for the Periods Ending September 30, 2018 and December 31, 2018

Ms. Akiyoshi presented the Plan asset report for the periods ending September 30, 2018 and December 31, 2018.

The total asset balance in the PTS Plan as of September 30, 2018 is \$130,275,755.95, and the total asset balance as of December 31, 2018 is \$132,554,198.27.

The corresponding quarterly management reports for these periods are provided for review and information.

There were no further questions from the Board.

**A motion was made by Trustee Young and seconded by Trustee Rapoza to adopt the Report of Funds Not Deposited in the State/County Treasuries for the PTS Plan for the periods ending September 30, 2018 and December 31, 2018. The motion passed unanimously.**

- c. LSW's Annual Letter on the Reimbursable Amount Available in the PTS Plan Expense Account for 2019

Ms. Akiyoshi presented LSW's annual letter to report on the available amount for reimbursement of Plan expenses. In accordance with the contract, the expenses are up to a maximum of 6 basis points of all contributions received on/after July 1, 2013.

Based on the amount of total collected premiums in 2018, the amount added to the Plan Expense Account balance totaled \$5,963.53, for a total account balance of \$60,130.35 on December 31, 2018. Plan expenses that have been covered were related to the public hearing notices at the time of the amendments to the Administrative Rules. Some projected expenses

could be for wire transfer expenses incurred on pay dates by the County of Kauai.

d. Notification on New Interest Rate, Effective January 1, 2019

Ms. Akiyoshi asked to defer this announcement until the next meeting.

Agenda

Item # 10: Other Business/Announcements

a. Board Appointments Subject to Confirmation

Chairperson Moto restated that Trustee Young was appointed to serve on the Board last year and was confirmed during the 2019 Legislative Session. He stated that there are currently two vacant seats on the Board.

b. Review of Bills for 2019 Legislative Session

i. HB 1007/SB1233, SD1, Relating to Adding the Roth Option

Ms. Akiyoshi stated that there are two bills introduced to add the Roth Option for the Deferred Compensation Plan which are moving through the respective committees. Last year, the Board had discussed and requested this initiative. Trustee Young provided an update that the Senate bill version has died which leaves the House bill remaining.

ii. HB 1344, HD1, Relating to DHRD Operating Budget

Ms. Akiyoshi stated that the Board's request for an additional position to support the Board is included in the bill for DHRD's budget request. The bill is moving through the committees.

iii. SB 796, Relating to DHRD

This bill is the Senate version of the bill for DHRD's budget request and is moving through the committees.

iv. SB 625, HD1, Relating to DHRD

Ms. Akiyoshi stated that this bill is for the Board's information. Trustee Wada summarized that this bill which proposes to eliminate DHRD was introduced because of the many recruitment vacancy concerns by departments that they have not been able to fill their vacancies within their departments.

c. Scheduled Meetings and Events for 2019

Ms. Akiyoshi stated that the next Board meeting is scheduled for April 16, 2019, and the Semi-Annual meeting is scheduled for May 30, 2019 which will be held at the Plaza Club. A site for the Benefits Fair has been secured and will be held at the Oahu Veteran Center in Foster Village area on May 29, 2019. There were no objections on the location of the Benefits Fair from the Board members.

There was no other business. Chairperson Moto thanked everyone for attending today's meeting and adjourned the meeting at 11:15 a.m.

**(NOTE: Signed copy on file.)**