

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

**OPEN SESSION MINUTES
MEETING # 335**

Date: August 6, 2009

Place: Department of Human Resources Development
14th Floor Director's Conference Room
235 South Beretania Street
Honolulu, HI 96813

Present: Sandi Yahiro, Employee Member
Scott Kami, Employee Member
Wesley Machida, Employee Member
Ryan Ushijima, At-Large Member
Kenneth Taira, At-Large Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Troy Saharic, John Bothwell, and Eric Kim, Mercer Investment Consulting – Via
Conference Call
Melody Takacs, Plan Administrator Staff (ING)/Honolulu Office
Grace Baracao, Plan Administrator Staff (ING)/Honolulu Office
Jeanne Kanai, Plan Administrator Staff (ING)/Honolulu Office
Carol Cann, Plan Administrator Staff (ING) – Via Conference Call

Absent: Marie C. Laderta, Chairperson
Georgina Kawamura, Ex-Officio Member

Call to Order: There being a quorum present, Trustee Yahiro called the meeting to order at 9:03 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.

Agenda

Item # 1: Welcome New Trustees and Presentation of Commission Certificates

Trustee Yahiro called the meeting to order and opened with a welcome to the two (2) new trustees, Trustee Kami and Trustee Machida. Trustee Yahiro presented

Board Certificates to both members.

Conference call line opened and joining the meeting are Mr. Saharic, Mr. Bothwell and Mr. Kim from Mercer; and Ms. Cann from ING Boston office.

Agenda

Item # 2: Investment Management Review Updates by Mercer

a. Discussion on Change in Share Class Fee for the Bernstein International Value Investment Option

Mr. Saharic provided background information:

- i. Board went to a low-cost commingled vehicle and selected the Bernstein International Value option to provide a non-US value mandate; option is a dedicated share class;
- ii. AllianceBernstein initially waived some of the operating costs/fees but over time would need to impose some fees;
- iii. After the initial year, AllianceBernstein is asking for the Plan to start paying for the fees as they expect more investors to come into the Fund to mitigate operating costs;
- iv. Currently, the Plan has the CIT Class H share and the current class fee has an annual fee of \$10,400 for 2010;
- v. Three (3) options were presented:
 - a. Stay in the current CIT Class H share; Fee would increase to 1.11%;
 - b. Move to the CIT Class P share; Fee will be at 0.89% and capped at 1.00%;
 - c. Move to a mutual fund; fee would be 0.85%; the downsides are that the institutional mutual fund is lagging in performance of about 400 basis points over a 3-year period; and is subject to higher cash flow activity. Mercer does not recommend this option as an appropriate vehicle to move into at this time.

Mr. Saharic recommended that the Board consider moving to the second commingled fund, CIT Class P share which has other investors, and the commingled fund has outperformed the mutual fund over the 1- and 3-year periods. There are no transaction costs, and the securities in the Class H share would move as securities-in-kind to the Class P share.

Mr. Bothwell provided the performance of the 3 vehicles for the 1- and 3-year periods:

Investment Vehicle	3-year Returns	1-year Returns
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CIT Class P Share	-11.88%	-37.18%
CIT Class H Share	-11.81%	-37.10%
Institutional Mutual Fund	-14.45%	-41.88%

Trustee Ushijima noted that if the Board decided to stay with the current Class H, the fee will increase. The better choice appears to be moving to the Class P share because of the cost factor.

A motion was made by Trustee Machida and seconded by Trustee Kami to move from the current CIT Class H share to the CIT Class P share. The motion passed unanimously.

b. Other Investment Fund Management Updates

Mr. Saharic reported that BlackRock is planning to acquire Barclays Global which would make it one of the largest managers. This acquisition will not impact the managers selected in the index manager search. The acquisition is expected to close in the 4th quarter 2009. Mr. Saharic also reported that the AllianceBernstein fund is underperforming but Mercer is monitoring client losses and any layoff situations that may affect the strategy. AllianceBernstein has had some layoffs in the organization. Mercer is recommending that no action be taken at this time.

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Item # 3: Discussion State Street Amended Fee Schedule for OTC Derivatives

Ms. Akiyoshi reported that a letter was received from State Street to request amendments to its fee schedule for OTC derivatives. The fee schedule was presented to the Board. Ms. Akiyoshi stated that the Plan does not use OTC derivatives, but based on Mr. Saharic's recommendation to ask that State Street provide a competitive fee pricing, a letter was prepared and sent to State Street (copy of letter distributed). A response was received from State Street stating that they are not requiring the Board to take any action at this time. State Street noted that at the time the Board does consider OTC derivatives that they consider the amended fee schedule.

Mr. Saharic added that the Board does not need to do anything at this time. At the time of Mercer's review of the fee schedule, they felt that the fees could be more competitive.

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Item # 4: Status of the Brokerage Window

DAG Tam summarized past discussions on the brokerage window for the benefit of the new trustees:

- Since the Plan did not offer a brokerage window, participants are limited to the core options and the Lifecycle funds.
- The Board decided to offer this option.
- The Board asked ING to gather quotes from various brokerage companies.
- The lowest cost proposal received was from Charles Schwab. The others were from TD Ameritrade and State Street.
- The Board selected Schwab.
- The Board directed Staff to negotiate with Schwab, and during the negotiations, Schwab felt that they could not indemnify the State unless the State indemnifies Schwab.
- In the standard State contracts, we ask that the Contractor indemnify the State for any of the Contractor's acts or omissions.
- Since by law the State cannot indemnify any company, Schwab countered to say that Schwab will indemnify only the Board, up to \$200,000.
- Staff checked with the next lowest proposer, TD Ameritrade; draft indemnification language from TD Ameritrade was reviewed.
- TD Ameritrade indicated that they would indemnify the State for its negligence and willful misconduct, but not the participant since the participants would have a separate agreement with TD Ameritrade.

DAG Tam indicated that he needs further direction by the Board on this matter. He noted that we also learned that C&C of Honolulu utilizes TD Ameritrade. DAG Tam clarified that for any participant disputes, Nebraska law will govern; if there is any dispute with the State, Hawaii law will govern.

DAG Tam added that both Schwab and TD Ameritrade have a local office. However, Schwab seemed reluctant to have its local office involved in servicing participants; TD Ameritrade was more willing to service participants at its local office.

A motion was made by Trustee Ushijima and seconded by Trustee Machida to move to the next lowest bidder, TD Ameritrade. The motion passed unanimously.

DAG Tam asked for the Board's direction on the scope of the brokerage window. Schwab offered various options; TD Ameritrade has two (2) choices, either to open a full window (with certain restrictions) or be limited to mutual funds only. Also, direction is needed on what to do with the Plan's core options.

A motion was made by Trustee Taira and seconded by Trustee Ushijima to move to offer a full brokerage window to participants with TD Ameritrade. The motion passed unanimously.

Item # 5: 2009 Legislative Session – H.B. No. 1550

- a. Status of the Bill
- b. Operational Impact of Bill on Transfers and Rollovers Out of the Plan

Ms. Akiyoshi reported that H.B. No. 1550 was transmitted to the Governor, but the bill was on the Governor's veto list. The Governor asked the Legislators to make some amendments to the bill before passing the bill as law without her signature. It appears that the bill passed.

Trustee Machida clarified that currently ERS allows the transfer of assets from the Plan to acquire service credits. When the transfer is made the State income tax is still deferred. Under ERS law, distributions are not taxed at the State income tax level. So, the bill that was introduced would have State taxes imposed on any rollovers and transfers. There may have been an oversight in the final bill that only addresses State tax to be applied on rollovers. According to ERS' attorney, the bill only affects rollovers and still does not affect transfers. Even if the bill is enacted, there will be minimal impact since there are very few rollovers. ERS sees more trustee-to-trustee transfers. It is anticipated that the loophole in the law will be corrected in the next legislative session.

Trustee Machida explained that the ERS has plans to launch a new program that will affect about 24,000 members. Likely, many of these ERS members will want to upgrade their Non-contributory plan service to Hybrid Plan service. The value of the transfer could be very high without any State income tax consequences. The entities that will rollover the monies will be responsible for taking the State income taxes and reporting the action.

ERS will start this program on October 1, 2009. There are approximately 3,000 of the 24,000 that are eligible to retire and plan to retire by December 2009. They have been waiting for this program and will not be happy if they cannot make the transfer by the time they retire. So, Trustee Machida expressed a concern on the taxability outcome of this bill and the information that is provided to the participants.

The Board agreed to seek an opinion from the Attorney General's Office on the reading of the law. ERS did get feedback from the Tax Office who concurred that the State tax only affects rollovers.

DAG Tam reminded the Board that within the Stable Value Fund contract with Prudential, there is a provision of a 20% limit on the amount that can exit out of the Prudential side of the Fund within a year. The problem is that most of the Plan's assets are in the Stable Value Fund. This could affect those participants who plan to transfer assets for the ERS upgrade. The information on the limits within the Stable Value Fund has been communicated through the Stable Value

Fund informational sheets, so participants have been made aware if any limits are reached within the Fund and the Fund prohibits any.

A motion was made by Trustee Ushijima and seconded by Trustee Kami to prepare a letter from the Board to the Attorney General's Office to clarify how H.B. No. 1550 affects transfers. The motion passed unanimously.

Ms. Akiyoshi noted that establishing a subcommittee may be prudent since there will be logistics and procedures to work out between the TPA (ING) and ERS, such as handling of the monies from the Plan to ERS since ERS has been only processing current purchase of service through ACH and the process is expected to change for handling the Hybrid Plan upgrade transfers.

Ms. Cann concurred that a subcommittee may be helpful in working out the process since the process within ING will be a manual one.

A motion was made by Trustee Ushijima and seconded by Trustee Taira to add to move to establish a subcommittee consisting of Trustees Machida and Yahiro to work out the procedures for the ERS' Hybrid Plan Upgrade Program. The motion passed unanimously.

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Item # 6:

Approval of Minutes No. 333

A motion was made by Trustee Ushijima and seconded by Trustee Taira to move to approve Minutes No 333. The motion passed unanimously; Trustee Machida abstained from voting.

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Item # 7:

Ratification of Unforeseeable Emergency Withdrawal Case Nos. 150A, 219, 222, 223, 227, 232, 235 236, 237, 240, 241, 245, and 246

Trustee Yahiro explained that the reviews of UEW cases have been done by a subcommittee and subsequently ratified by the Board.

Trustee Yahiro reported that the UEW subcommittee made decisions on all of the UEW cases, except UEW case no. 241 was deferred for Board action. Ms. Akiyoshi asked the Board to remove UEW Case No. 245, and Ms. Kanai will present a revised UEW Case No. 245A. Ms. Kanai added that UEW Case No. 240 was also deferred pending additional information and which has been received.

A motion was made by Trustee Ushijima and seconded by Trustee Taira to ratify the decisions made by UEW subcommittee on UEW Case Nos. 150A, 219, 222, 232, 235, 236, and 246. The motion passed unanimously.

Trustee Yahiro summarized UEW Case No. 237. Based on the guidelines set forth by IRS, the UEW subcommittee made a decision to deny because of no qualifying event, as the participant's mother was not considered a dependent of the participant.

A motion was made by Trustee Taira and seconded by Trustee Machida to ratify the decision made by the UEW subcommittee to deny UEW Case No. 237. The motion passed unanimously.

Trustee Yahiro summarized UEW Case No. 223. Based on the guidelines set forth by IRS, the UEW subcommittee made a decision to deny because it was determined that the loss of overtime was not a qualifying event.

A motion was made by Trustee Machida and seconded by Trustee Taira to ratify the decision made by the UEW subcommittee to deny UEW Case No. 223. The motion passed unanimously.

Trustee Yahiro summarized UEW Case No. 227 (revised UEW Case No. 227A). Based on the guidelines set forth by IRS, the UEW subcommittee made a decision to deny because of no substantiation of a severe financial hardship.

Trustee Ushijima pointed out that outstanding unpaid medical bills have been provided. It was not certain whether the medical bills are past due and tied to the stress and medical condition.

A motion was made by Trustee Ushijima and seconded by Trustee Taira to approve UEW Case No. 227A, subject to verifying that past due medical bills are tied to the participant's medical condition. The motion passed unanimously.

Trustee Yahiro summarized UEW Case No. 240. Based on the guidelines set forth by IRS, the UEW subcommittee made a decision to defer pending additional information. Additional information was presented.

A motion was made by Trustee Ushijima and seconded by Trustee Machida to approve UEW Case No. 240. The motion passed unanimously.

Trustee Yahiro summarized UEW Case No. 241. Based on the guidelines set forth by IRS, the UEW subcommittee made a decision to deny because there are assets (two investment properties) that should be liquidated first, to the extent that the liquidation itself does not create a severe financial hardship. Due to the extenuating circumstances of the case, the Board felt that the situation could generate more of a severe financial hardship.

A motion was made by Trustee Ushijima and seconded by Trustee Taira to approve UEW Case No. 241 for the amount that the participant has requested of \$17,000, up to \$21,453.22. The motion passed with 4 votes in favor and one opposing vote.

Trustee Yahiro summarized UEW Case No. 245A; UEW Case No. 245 was removed and replaced. Ms. Kanai presented details on case no. 245A and the Plan Administrator's recommendation to approve the requested amount of \$9,000.

A motion was made by Trustee Machida and seconded by Trustee Ushijima to approve UEW Case No. 245A for the amount of \$9,000 as requested by the participant. The motion passed unanimously.

Ms. Kanai reported that she has several more UEW cases pending. Trustee Yahiro noted that the past UEW subcommittee consisted of herself and Chairperson Laderta. Since Chairperson Laderta has recently had a busy schedule, she has asked to be excused from the subcommittee.

A new UEW subcommittee was established with Trustees Yahiro and Kami.

Agenda

Item # 8:

Plan Administrator's Report

a. Plan Reports and Announcements

Ms. Takacs reported that the Local Office has met and exceeded the meeting goals of 630 for group meetings for the Plan Year ending June 30, 2009 by 108.

b. Discussion on Employees' Benefits Fairs

Ms. Cann stated that the Plan has been holding Benefits Fairs twice a year at various locations throughout the State but due to the economic situation that the State is facing whether the Board feels it would be appropriate to continue the Fairs.

Ms. Akiyoshi added that there are tentative plans for holding the next Benefits Fair on November 3, 2009 at Wailuku Community Center. The survey results from the last Benefits Fair in May at the UH (approximately 630 attendees) and the Aloha Stadium (approximately 508 attendees) generated positive feedback overall. In planning these fairs and recognizing the economic situation, ING decided to bring this matter to the Board as to whether the Board would like the Fairs to continue.

Ms. Cann stated that there is no direct expense to the Plan. About 35-40%

of the Communications budget is allotted to hold these Benefits Fairs during the year, which includes printed fair materials, storage of fair materials, site or equipment rentals, if applicable. Even though we are seeing tough economic times, there is still a need to communicate to participants and educate participants on the Plan's options and features. And, the surveys from the fairs have been very positive overall.

The Board agreed that the Benefits Fairs should continue to be held.

A motion was made by Trustee Machida and seconded by Trustee Kami to continue holding the Benefits Fairs. The motion passed unanimously.

In response to Trustee Yahiro's inquiry on Plan assets, Ms. Cann additionally reported that the total Plan assets as of close of business on August 5, 2009 are at \$1,294 million and \$621 million is in the Stable Value Fund. The Plan has seen an influx into the Stable Value Fund; and most participants have continued their deductions. Contribution amounts have remained steady.

Ms. Akiyoshi reported on the status of the DAGS reimbursement to the Plan when an incorrect payroll file was transmitted in error back in March 2009, which resulted in a loss to the Plan. DAGS responded via memo to say that they will be sending the reimbursement of \$5,468.50. DAGS has also provided a corrective action plan (handout). DAGS/ICSD and ING are working together on a resolution.

Ms. Akiyoshi also reported that the Board meeting minutes are now being posted to the Plan website. The 2009 and some of the 2008 minutes have been posted and will continue to work on posting the past board meeting minutes, as requested by the Board.

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Item # 9:

PTS Plan

a. New Quarterly Rate on July 1, 2009

Ms. Akiyoshi reported that the new rate on July 1, 2009 is at 4.64%.

b. Approval of Revised 2009 Quarterly Fund Report for Period Ending March 31, 2009, and for Period Ending June 30, 2009

Ms. Akiyoshi reported that the last asset report for the period ending March 31, 2009 was approved by the Board; however, this report was revised and is being resubmitted for the Board's approval. The asset report for period ending June 30, 2009 is also submitted for the Board's approval.

A motion was made by Trustee Machida and seconded by Trustee Taira to accept the revised report for period ending March 31, 2009, and the report for period ending June 30, 2009. The motion passed unanimously.

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Item # 10: Other Business/Announcements

a. 2009 Annual NAGDCA Conference

Ms. Akiyoshi stated that in the past the Board has chosen to go to the NAGDCA conference, which rotates its meeting site every year. This year's conference will be held in Austin, Texas on September 12 -16, 2009. If any Board member decides to attend, registration should be completed by this week. So far, she only received confirmations from Trustees Kawamura and Taira. A budget is established within the contract for travel expenses for the Board so there is no additional expense to the Plan. Trustee Ushijima has elected to attend another conference in November 2009. DAG Tam added that the NAGDCA conference is the most relevant conference because it pertains to the section 457 plans. Trustee Kami expressed a preference to attend.

Trustee Taira expressed that staff be allowed to attend in order to preserve the institutional memory as Board members will eventually rotate off the Board.

A motion was made by Trustee Machida and seconded by Trustee Taira to allow staff to attend the upcoming NAGDCA conference. The motion passed unanimously.

b. Appointment of New Vice-Chairperson

A motion was made by Trustee Kami and seconded by Trustee Machida to appoint Trustee Yahiro as Vice-Chairperson on the Board. The motion passed unanimously.

Trustee Yahiro stated that Senate Resolution No. 41 was passed during the legislative session by the Senate Committee on Labor to conduct a hearing to assess performance of the Board. Ms. Akiyoshi noted that in preparation for a hearing, staff is gathering information on how the Board and the Plan Administrators have addressed communications to Plan participants. Trustee Yahiro noted that she did meet with legislators but was not provided much information on the intent of the legislation.

A motion was made by Trustee Ushijima and seconded by Trustee Machida to go into Executive Session at 11:50 a.m. to discuss procurement matters. The motion was passed unanimously.

ING staff was excused from the meeting. A conference call held with Mercer.

EXECUTIVE SESSION

Agenda

Item # 11: Status of Contract Award for RFP No. DCP-FY-09-1, RFP for Large Cap Growth Equity Investment Option for the State of Hawaii Deferred Compensation Plan, and RFP No. DCP-FY-09-2, Request for Proposals for Passively Managed Investment Options

Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Ushijima to get out of Executive Session at 12:20 p.m. The motion passed unanimously.**

Motion to

Adjourn: **A motion was made by Trustee Machida and seconded by Trustee Ushijima to adjourn the meeting at 12:20 p.m. The motion passed unanimously.**

(Note: Signed copy on file)