

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

**OPEN SESSION MINUTES
MEETING # 329**

Date: December 22, 2008

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

Present: Wayne Chu, Employee Member/Vice Chairperson
Ken Taira, Member
Ryan Ushijima, Member
Sandra Yahiro, Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Tracy Kiyabu, DHRD Staff
Troy Saharic, Mercer Investment Consulting (via conference call)
Carol Cann, Bernard Wong, and Monica Dos Santos - ING-Boston Office
(via conference call)
Melody Takacs and Grace Baracao - ING – Honolulu Office

Absent: Marie C. Laderta, Chairperson
Georgina Kawamura, Employee Member
Carol Raber, Employee Member

Call to Order: There being a quorum present, Vice Chairperson Wayne Chu called meeting to order at 8:50 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.

Vice Chairperson Chu opened the meeting in Chairperson Laderta's absence. Vice Chairperson Chu requested that Agenda Item # 6 be taken out of order and addressed by the Board first.

Agenda

Item # 6: Approval of Minutes Nos. 279, 280, 306, 307, 321, 322, and 327
Ms. Akiyoshi stated that only Board Meeting Minutes No. 327 is available for the Board's review and approval.

Minutes Nos. 279, 280, 306, 307, 321 and 322 were not available for review and approval. Therefore, the Board agreed to defer approval of these minutes to the next meeting.

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to approve Minutes No. 327. The motion passed unanimously.

Agenda

Item # 1: Mercer's Recommendations on the Annual Reallocations of the Plan's Five (5) Lifecycle Funds Portfolios

Mr. Saharic directed the Board members to the Mercer memo dated December 15, 2008 regarding Mercer's Annual Lifecycle Allocation Review. Mr. Saharic noted that Mercer is recommending allocations that represent higher allocations to fixed income and lower allocations to Stable Value, as well as increased allocations to non-U.S. equity and decreased allocation to U.S. equity. It is also recommended that a 2055 lifecycle fund be added to the Plan, which will cost an average of \$28-29,000 per year. However, due to the recent down-turn in the market, it is recommended that actual implementation of the reallocations be delayed to the 1st or 2nd Quarter of 2009, when markets are expected to rebound somewhat. If the anticipated rebound occurs earlier, Mercer will approach the Board about implementation of the new allocations sooner than 1st or 2nd quarter of 2009.

Trustee Ushijima noted that in the proposed new asset allocations of the 2015 portfolio, there is a significant move away from Stable Value to U.S. fixed income. Mr. Saharic responded that is because capital market assumptions are kept current. He stated there is dramatic decline in interest rates and that will have a negative affect on the Stable Value Fund's crediting rate. As interest rates go down, bond prices go up making the U.S. fixed income look more attractive than Stable Value and that is reflected in the new asset allocation model.

Trustee Yahiro questioned and wanted to confirm the Board's plans for covering the costs for the addition of the 2055 Lifecycle Fund to the Plan. Ms. Akiyoshi reminded the Board that in the last review of the Plan's budget, revenue is available to cover costs of the additional fund.

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to accept the recommendation made by Mercer regarding the reallocation of the Lifecycle funds and the addition of a 2055 Lifecycle fund. The motion passed unanimously.

Agenda

Item # 2: Discussion on Implementing a Brokerage Window

Mr. Saharic directed the Board Members to the revised Mercer memo dated December 15, 2008 that is a service and fee comparison outline of brokerage window providers TD Ameritrade, Charles Schwab, and State Street.

Mr. Saharic reminded the Board of the comparison review between TD Ameritrade and Charles Schwab done at the last Board meeting. At that time, State Street was in the process of providing revised fee information for their services for the Board's consideration. Mercer obtained that information and added the State Street information to their comparison memo. It was confirmed that ING has the ability to work with all three (3) providers.

Mr. Saharic reviewed the comparison outline in their memo with the Board clarifying information and addressing general questions. He noted that State Street's revised fees are still rather high. He pointed out that State Street does not have a local office in Hawaii, whereas Charles Schwab has two offices and TD Ameritrade has one. Mr. Saharic commented that Charles Schwab's website was more user-friendly and robust and stands out from the websites of TD Ameritrade and State Street. In considering all the information presented, Mr. Saharic stated Mercer would recommend Charles Schwab for the Plan's brokerage window provider.

Trustee Yahiro questioned if any of these three companies are in financial trouble. Mr. Saharic responded that State Street is part of a large bank and they have not heard of any problems regarding State Street. Charles Schwab is a public company and they seem to be fine. TD Ameritrade is owned by a Canadian company and we have not heard of any problems with them. Mr. Saharic stated that all three are good viable providers.

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to accept the recommendation made by Mercer to select Charles Schwab as the brokerage window provider. The motion passed unanimously.

There was Board discussion about learning that brokerage window participation in other plans has been very low.

Trustee Ushijima questioned when the brokerage window could be implemented. DAG Tam responded that the goal for implementation is the first quarter of 2009.

It was requested that Agenda Item # 7 be taken out of order and addressed next while Mr. Saharic is still available via phone conference. The present Board members agreed.

Agenda

Item # 7: Status Update on Request for Proposals

- a. RFP No. DCP-FY-08-1, Request for Proposals for a Large Cap Growth Equity Investment Option; and
- b. RFP No. DCP-FY-08-2, Request for Proposals for Passively Managed Index Options

Ms. Akiyoshi reported that staff is working on finalizing the RFPs. She is including last minute edits Mr. Saharic provided. The RFP advertisements are scheduled for issue on December 29, 2008. Copies of the final RFPs will be provided to the Board at the next Board meeting.

Agenda

Item # 3: Ratification of Unforeseeable Emergency Withdrawal Cases

Trustee Yahiro, leading the discussion for the UEW cases, explained the full UEW subcommittee was not available to review the UEW cases; therefore, there are a few cases for which decisions could not be made and are being brought to the present Board members for further review and action. She will start with those cases that subcommittee determinations were made followed by those that need further review.

Trustee Yahiro discussed UEW Case Nos. 206, 196, 198, and 201. In regards to these cases, she concurred with ING's recommendation for partial or full approval of the amounts requested.

Trustee Yahiro then presented UEW Case No. 185 and stated her recommendation is to deny the request entirely as she did not feel salary garnishment is an unforeseeable emergency event and the participant's financial situation was within their control. There was discussion among the present Board members; however, consensus could not be reached and the Trustees indicated they would return to considering the case once the others were reviewed.

Trustee Yahiro discussed UEW Case No. 208. She cited concerns with a portion of the debt that the participant is claiming as it appears it was accrued prior to the September 15, 2008 triggering event for which the participant is claiming a UEW. Ms. Dos Santos of ING verified, from the participant documentation received, the outstanding debt amount that occurred from September 15, 2008, was \$5,781.26. This is the amount that ING recommends approving for the UEW.

Ms. Dos Santos presented Case No. 190 and outlined the timeline and events that

have lead up to the participant's UEW request. The present Board members discussed the available details of the case and agreed with ING's recommendation to approve the UEW request for \$24,035.59.

Trustee Yahiro discussed UEW Case No. 195. After discussion among the present Board members, consensus was to exclude past due tuition payments and approve the remaining balance amount of the participant's UEW request.

UEW Case No. 202 was then presented by Trustee Yahiro. After discussion by the present Board members, consensus was to deny this request as it did not meet the criteria for a UEW.

Discussion then returned to UEW Case No. 185. After extended discussion on the case, the consensus of the present Board members was to approve the UEW as requested.

A motion was made by Trustee Yahiro and seconded by Trustee Taira to approve the Board's determination on each of the UEW Cases discussed above. The motion passed unanimously.

Agenda

Item # 4:

Plan Administrator's Reports

a. Plan Reports and Announcements

Ms. Cann directed the Board to the Plan Administrator's report. It was reported that for the period July 1 – November 30, 2008, the Plan Representatives in the Honolulu Office had conducted 331 group meetings with a total attendance of 2,658; 802 one-on-one meetings were conducted; staff responded to 3,308 calls; 522 office walk-ins were assisted; and 391 new Plan enrollments were processed.

It was reported that as of December 12, 2008, 774 participants enrolled in the Professional Management Program under the new Investment Advice Service available in the Plan. 63 participants enrolled in the Program online; 253 enrolled through calls to an Advisor; and 458 enrolled via paper/form enrollment. Ms. Cann commented on the good turn out at the Benefits Fair held in Hilo in November and the great interest in the investment advice information and presentations.

Ms. Cann reported that 545 Required Minimum Distributions (RMD) were processed on December 8, 2008. She brought to the Board's attention proposed federal legislation awaiting the President's signature regarding

the waiving of RMDs for 2009, which is part of the Worker, Retiree, and Employer Recovery Act of 2008. This Act does not affect RMDs for 2008.

It was then reported that ING will be implementing Employees' Retirement System rollovers for the Plan in January 2009.

Ms. Akiyoshi reported on behalf of Mr. Saharic that INVESCO recently terminated its sub-advisor Western Asset Management and is currently searching for a replacement sub-advisor. The Board will be kept apprised of this matter.

Agenda

Item # 5: 2009 Proposed Employees' Benefits Fairs Schedule

Ms. Akiyoshi directed the Board to the proposed schedule of 2009 Employees' Benefits Fairs and semi-annual Board meetings. She mentioned that the plan is to keep two semi-annual Board meetings for the year. A Benefits Fair and semi-annual meeting on Oahu are targeted for May. A Benefits Fair and semi-annual meeting are also targeted for Kauai later in the year – in October or November. In addition, a set of Fairs is proposed for August without a meeting. Ms. Akiyoshi asked for any comments from the Trustees and for their approval. After discussion among staff and the present Board members, it was requested that before a decision on the schedule is made that staff poll the investment product providers regarding their ability to participate in the three (3) Fairs proposed for 2009.

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to adjourn the meeting at 10:55 a.m. The motion passed unanimously.

(Note: Signed copy on file)