

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

**OPEN SESSION MINUTES
MEETING # 339**

Date: January 26, 2010

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

Present: Marie C. Laderta, Chairperson
Sandi Yahiro, Employee Member
Wesley Machida, Employee Member
Kenneth Taira, At-Large Member
Ryan Ushijima, At-Large Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi and Lily Chu, DHRD Staff
Troy Saharic and John Bothwell, 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
Albert Lee, Plan Administrator Staff (ING)/Honolulu Office
Carol Cann, Plan Administrator Staff (ING) – Via Conference Call
Kristine Matthews, ING – Via Conference Call
Lisa (Yoshioka) Hoxha, Great West Retirement Services

Absent: Georgina Kawamura, Ex-Officio Member
Scott Kami, Employee Member

Call to Order: There being a quorum present, Chairperson Laderta 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 Laderta welcomed all attendees. Introductions were made: Mr. Al

Lee gave his background (including working at HBI) and stated that he joined ING in December 2009; Ms. Lisa (Yoshioka) Hoxha introduced herself, stated that she is representing Great West Retirement Services, and expressed their interest in observing the Board meeting.

Agenda

Item # 1: Mercer's Annual Review of Reallocations within the Lifecycle Funds

Mr. Saharic referenced Mercer's memo that was updated on January 19, 2010, that recommends new asset allocations of the LifeCycle Funds to adjust the target allocations based on capital market assumptions and Plan demographics. He reviewed the old asset allocations that are built on the Plan's core funds.

Mr. Saharic highlighted the following findings on the new asset allocations:

- Consider the addition of a 2055 portfolio for new (younger) employees coming into the Plan that will be more appropriate with the age horizon.
- The model has shifted some of the assets away from the Stable Value Fund within the Income Fund portfolio. The model is favoring fixed income.
- The portfolio is also reallocated based on implementation of new changes within the core funds:
 - The Vanguard Institutional Index fund will be replaced with a new S&P index manager.
 - The MainStay Fund has replaced the Wells Fargo Fund which has been underperforming over the long-term period.
- The market considers the LifeCycle glide path as the ultimate default option.

Trustee Machida noted that the expected return in the Income Fund shows 5.88% (expected rate over a 10-year time period) versus the old asset allocation at 5.90%.

Mr. Saharic responded that there is no real return give-up and Mercer believes that there is no material difference. The Income Fund has a greater allocation to equity since there is a need to have more return over a longer period of retirement.

A motion was made by Trustee Yahiro and seconded by Trustee Ushijima to accept the new allocations being recommended by Mercer, including the recommendation to add a 2055 Fund. The motion passed unanimously.

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Item # 2: 2010 Legislative Session

Ms. Akiyoshi referred to a handout on a summary of legislative bills for 2010 session. Ms. Akiyoshi began with a report of 2009 session bills:

a. Senate Resolution No. 41 (2009)

S.R. No. 41 was adopted in the 2009 legislative session to require an assessment of the Board and the Third Party Administrator. Ms. Akiyoshi reported that there were no requests received for information and there were no hearings or meetings scheduled by the Senate Committee on Labor. Staff is still continuing to monitor activity on the bill in the event the resolution is resurrected.

Other bills introduced in the 2009 session – H.B. No. 1104 and S.B. No. 922 – to automatically enroll new employees into the Plan have been carried over to the 2010 session.

Chairperson Laderta noted that given the current economy and furloughs, it may not be the right time for automatic enrollment since it may generate financial concerns with individuals, even though there would be an opt-out provision.

b. Other Legislative Initiatives – 2010 Session

Ms. Akiyoshi reported on the new bills:

- H.B. No. 2259 and S.B. No. 2394 would require changes in the composition and appointment process of the Board and require elections of Board members. In 2005, there was a similar bill to change the composition of the Board and require that members be elected. The Board submitted testimony in opposition and cited concerns at that time: 1) there was adequate representation on the Board; 2) there is a need to maintain the flexibility of private sector representation; and 3) there would be costs associated with the election which ultimately would affect participants.

Trustee Machida stated that the ERS Board has 4 members appointed and 4 members elected. ERS pays thousands of dollars to hold its elections.

A motion was made by Trustee Taira and seconded by Trustee Yahiro that the Board take the position to oppose the bills because of the high costs that would be imposed on participants to hold elections; that there is adequate representation on the Board; and there is a need to maintain flexibility to obtain expertise from the private sector. The motion passed unanimously.

- H.B. No. 1871 would convert DHRD to a division under the Department of Labor and Industrial Relations, and transfer the Plan's Board of Trustees to the Department of Accounting and General Services.

Chairperson Laderta stated that this is a broad bill containing several initiatives, thereby serving as a vehicle bill. The Board felt it should only address the portions pertaining to the Board and the Plan.

The Board agreed to take a position to oppose the transfer of the Plan and Board to Department of Accounting and General Services because all the employee benefits plans should be kept together in order to function efficiently. The Board opposes the DHRD move to the Department of Labor and Industrial Relations because it would affect staffing to the Plan and the Board, and it could result in prioritization issues due to competing resources within DLIR.

A motion was made by Trustee Taira and seconded by Trustee Yahiro to take the position to oppose this measure. The motion passed unanimously.

The Board asked staff to prepare draft testimony.

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Item # 3: Approval of Minutes Nos. 334 and 335

A motion was made by Trustee Yahiro and seconded by Trustee Taira to approve Minutes Nos. 334 and 335 as is. The motion passed unanimously.

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Item # 4: 2010 Proposed Employees' Benefits Fairs Schedule and Semi-Annual Meeting

Ms. Akiyoshi referred to a schedule of the past Benefits Fairs held and reported on the proposed first set of Benefits Fairs to be scheduled for May 2010 in the Central Oahu and Windward Oahu areas. Sites that are being considered for Central Oahu include the Hawaii Okinawan Center and the Filipino American Community Center. Sites that are being considered for Windward Oahu are the Koolau Ballroom and the Pali Golf Course. The Semi-annual Board meeting will be scheduled during that week. Tentative dates that are being considered are during the week of May 24, 2010; and the second set of Benefits Fairs are tentatively being scheduled for Kauai. There were no objections from the Board on the proposal.

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Item # 5: Plan Administrator's Report

a. Plan Reports and Announcements:

Ms. Takacs reported on the Local Office field statistics and activities for the first half of the Plan Year:

Group meetings totaled 342; attendance at the meetings totaled in excess of 3,000 participants.

One-on-one meetings totaled 2,326; took in 3,542 calls and 928 walk-ins;

Processed 217 new enrollments for the Plan year.

The local office is on track to exceed its meeting goals for the Plan year 2009-2010.

During the 4th Quarter, ING took in 796 walk-ins and 2,217 calls, which were mainly because related to the ERS' Hybrid Upgrade program initiative. Plan Consultants also handled 1,877 one-on-one consultations mainly pertaining to assisting participants on the ERS' Hybrid Upgrade program.

Trustee Machida acknowledged ING in its efforts to work with ERS on the Hybrid Upgrade program.

Ms. Kanai added that through the ERS Hybrid Upgrade program initiative, the Plan was also able to see an increase in rollover monies into the Plan from the ERS – from those retiring participants who elected the refund option.

Trustee Machida noted that through both initiatives, the participants have benefited.

Ms. Kanai reported that as of January 15, 2010, ING processed 1,655 Hybrid remittance documents, for a total amount of almost \$98 million.

Trustee Machida reported that the ERS received 2,500 payments for about \$140 million; so the bulk has come from the Island Savings Plan.

Ms. Kanai announced that Albert Lee joined ING as the in-house Plan Consultant.

Ms. Kanai stated that after November 20, 2009, the Board turned over the UEW approval process to ING. Since then, 30 UEW requests were received and 32 UEWs have been approved and processed (17 UEWs were outstanding prior to ING taking over the process). Ms. Kanai noted that the streamlined process is working out well.

Ms. Matthews provided an update on the communication initiatives:

- 1) Support launch of the new TD Ameritrade Self-Directed Brokerage option. ING is partnering with TD Ameritrade to develop the communication materials.
- 2) Communication campaign to announce the new Passively Managed Index options. Developing a notice to participants to close the Vanguard Institutional Index option and map the remaining assets to the new Equity Index Fund manager effective April 1, 2010. Materials will include the new suite of index funds.
- 3) Educational article on the UEW process was completed in the 4th Quarter Plan newsletter. Participants will be seeing this when the 4th Quarter statements are mailed. The Board commented that this was a great effort in getting information to participants.

Ms. Cann reported that there were a couple of transactional/processing issues that ING is working on to eliminate with staff and DAGS Pre-Audit. Corrective measures include a process that would review and edit the feedback files that go to DAGS 2 days earlier so that issues can be caught and fixed. From September through January there were about 3,400 transactional changes, and there were 6 errors for UH that are tied to the vacation payout program. These are all manual processing actions that are inputted instead of automated. The percentage of errors is relatively small compared to the amount of the total manual transactions processed.

Chairperson Laderta called for a 5-minute break. The meeting resumed.

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Item # 6:

PTS Plan

- a. New Quarterly Rate on January 1, 2010

Ms. Akiyoshi reported that the new rate effective January 1, 2010 is 4.42%.

- b. Approval of Report on Funds Not Deposited in the State/County Treasuries

Ms. Akiyoshi referenced the Asset report for the period ending December 31, 2009, for the Board's review and approval.

A motion was made by Trustee Machida and seconded by Trustee Yahiro to accept the quarterly asset report as submitted. The motion passed unanimously.

c. LSW Annual Report on Availability of Funds for Reimbursement

Ms. Akiyoshi referenced LSW's letter dated January 19, 2010, to report on the amount of funds available for reimbursement. By contract, LSW sets aside a percentage of contributions collected for the purpose of any Board and/or audit expenses. Ms. Akiyoshi reported that the last audit conducted on the Plan was for the twelve month period ending January 31, 2007. The prior audit report was done in 2002.

The Board requested that LSW provide options on an audit.

Ms. Akiyoshi mentioned that a copy of the escrow account holdings report held by LSW, for the period ending December 31, 2009, is provided for information.

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Item # 7:

Other Business/Announcements

a. Status Report on the Addition of a Brokerage Window

Ms. Akiyoshi reported that the contract with TD Ameritrade has been executed. In discussions with ING, the target launch date is scheduled for April 1, 2010. The date will coincide with the beginning of the new quarter and the new index funds.

A motion was made by Trustee Machida and seconded by Trustee Taira to go into Executives Session at 10:19 a.m. to confer with the Plan's legal counsel on procurement matters. The motion passed unanimously.

ING staff and guests were excused from the meeting.

EXECUTIVE SESSION

b. Status Report on Contract Award for RFP No. DCP-FY-09-2, Request for Proposals for Passively Managed Investment Options

A motion was made by Trustee Yahiro and seconded by Trustee Machida to move out of Executive Session at 10:25 a.m. The motion passed unanimously.

Ms. Akiyoshi provided an additional note that under the PTS Plan, there were similar requests for distributions for the purpose of upgrading non-contributory service credits for the ERS Hybrid Plan. There were eight requests that were processed in 2009. In checking with the Plan Administrator, the timeframe to process requests is such a short time, and since there were no issues in moving the monies to ERS and would be beneficial to participants, a certification for a qualified distribution was prepared between the Plan Administrator and ERS to allow the transfers.

Chairperson Laderta adjourned the meeting at 10:30 a.m.

(Note: Signed copy on file)