

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

**OPEN SESSION MINUTES
MEETING # 363**

Date: July 24, 2012

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

Present: Scott Kami, Vice-Chairperson
Kalbert Young, Ex-Officio Member
Wesley Machida, Employee Member
Michael Okumoto, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
David Williams, and Andrew Ness --
Mercer Investment Consulting – Via Conference Call

Absent: Wayne Chu, Chairperson
Barbara Krieg, Ex-Officio Member
Neal Miyahira, Employee Member

Call to Order: There being a quorum present, Vice-Chairperson Scott Kami called the meeting to order at 9:05 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 Kami welcomed everyone and opened the meeting with introductions of Board members present including newly appointed Trustee Michael Okumoto from the County of Hawaii. Also introduced were attendees on the conference phone line from Mercer. Vice-Chairperson Kami noted that Chairperson Chu, and Trustees Krieg and Miyahira are excused from today's meeting.

Agenda

Item # 1: PTS Plan

- a. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending March 31, 2012.
- b. Quarterly Management Report for the Period Ending March 31, 2012.
- c. Quarterly Crediting Rate Effective July 1, 2012.
- d. Discussion on LSW's Termination of Contract Letter.

Ms. Akiyoshi reported on the PTS Plan's assets as of March 31, 2012 and presented the report for the Board's approval. The Quarterly Management Report for the PTS Plan for the period ending March 31, 2012 is included for information.

A motion was made by Trustee Machida and seconded by Trustee Young to approve the Report on Funds, as provided. The motion passed unanimously.

Ms. Akiyoshi announced that the quarterly crediting rate effective July 1, 2012 is at 3.72%.

DAG Tam reported that two (2) letters were received from LSW notifying the Board of their election to terminate the contract with the State. DAG Tam summarized the contract agreement with LSW which was executed in 2006.

DAG Tam explained that in conversations with LSW, LSW stated that they were looking at the market conditions and the crediting rate that they are providing. Given their contractual requirements to provide a minimum rate of 3% and a maximum management fee of 1.45%, LSW felt that they would not be able to continue to comply and were thinking of alternate solutions. LSW is open to modifying the agreement and sent some proposed terms.

Mr. Ness commented that within the industry, typically do not see the management fee or spread amount disclosed in these types of contracts. Mercer does have information gathered on fee amounts and use an assumption of 1.5%, so 2% appears to be a little high. The range is typically between 1.25% and 1.5%.

DAG Tam reviewed some options with the Board:

- a. Agree to modify the contract terms or negotiate other terms;
- b. Go out to bid on the PTS Plan contract; or
- c. As Mercer recommended, combine the administration of the 3121 plan with the 457 plan.

DAG Tam explained that since the deadline for the TPA RFP search was coming due on July 18, 2012, that staff talked with Chairperson Chu and Trustee Krieg and asked if we could issue a notice to suspend the deadline to submit proposals and look at how option #3 could be implemented.

Staff has consulted with Mercer on drafting of an addendum to add the PTS Plan administration to the current TPA RFP.

The Board asked for Mercer's recommendation. Mr. Ness said that there are benefits from conducting a search that combines the PTS Plan administration with the 457 administration and having one company accountable and foresee some cost efficiencies with the bundling.

DAG Tam stated that under HRS chapter 88-F, the product must guarantee a full return of principal. So when staff looked at the existing line-up available, the Stable Value Fund already exists. He stated that both Stable Value Fund managers have confirmed that their product would comply with the law. Mr. Williams added that the concern around wrap capacity is that you would not want to see the manager take in more money and they could not get the additional amount wrapped thereby investing it in cash. With cash yields where it is at, you would be basically getting nothing and paying the management fee for that.

A motion was made by Trustee Machida and seconded by Trustee Young to move into Executive Session at 9:22 a.m. to confer with the Plan's legal counsel. The motion passed unanimously.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Young to move out of Executive Session at 9:35 a.m. The motion passed unanimously.**

A motion was made by Trustee Machida and seconded by Trustee Young to combine the PTS Plan administration services with the section 457 Plan TPA services in RFP No. DCP-12-1. The motion passed unanimously.

DAG Tam stated that we would be informing LSW of the Board's decision, and ask that LSW would continue administering the PTS Plan and extending to at least March 31, 2013. Mr. Ness noted that six (6) month period is what we may be looking at so he recommended that the Board request a six (6) month extension from LSW and see if LSW would be willing to commit to that extension period.

Agenda

Item # 2: Discussion on RFP No. DCP-12-1, For Independent Third Party Administration Services

- a. Changes to the Proposal Submission Deadline Date
- b. Amendments to RFP No. DCP-12-1

A motion was made by Trustee Machida and seconded by Trustee Okumoto to move into Executive Session at 9:39 a.m. to discuss procurement related items and to confer with the Plan's legal counsel. The motion passed unanimously.

EXECUTIVE SESSION

Agenda

Item # 3: Discussion on Proposed Changes to Mercer's Contract

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Young to move out of Executive Session at 10:44 a.m. The motion passed unanimously.**

A motion was made by Trustee Machida and seconded by Trustee Young to amend the contract with Mercer to include the proposed changes to provide the additional consulting work to cover the PTS Plan administration services. The motion passed unanimously.

Agenda

Item # 4: Other Business

There were no other business items to discuss.

Vice-Chairperson Kami adjourned the meeting at 10:45 a.m.

(Note: Signed copy on file.)