

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

**OPEN SESSION MINUTES
MEETING # 383**

Date: June 19, 2014

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

Present: Wayne Chu, Chairperson
Barbara Krieg, Ex-Officio Member
Kalbert Young, Ex-Officio Member
Neal Miyahira, Employee Member
Michael Okumoto, Employee Member
Brian Moto, Employee Member
Kenneth Villabrille, Employee Member

Others: Rodney J. Tam, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Troy Saharic, David Williams, Mercer Investment Consulting
Alex Williams, Mercer Investment Consulting – via conference call
Julie Klassen, Carol Blumenthal, Prudential Retirement
Kevin Malmud, Jeanne Kanai, Grace Baracao, Prudential Honolulu Office

Call to Order: There being a quorum present, Chairperson Wayne Chu called the meeting to order at 9:07 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 Chu welcomed Trustees, and from Mercer Consulting, Inc. Mr. Saharic, Mr. Williams, and via conference call, Mr. Alex Williams.

Chairperson Chu moved to agenda item #3, to recognize an outgoing Board member whose term expires on June 30, 2014.

Agenda
Item # 3:

Recognize Outgoing Trustee and Presentation of Resolution

Chairperson Chu extended the Board's appreciation to Trustee Miyahira for his contributions and service during his term on the Board, and read a Resolution by the Board of Trustees. The Resolution and lei were presented to Trustee Miyahira.

Agenda

Item # 1: Discussion on Proposals Received for RFP No. DCP-14-1, Request For Proposals for a Small/Mid Cap Growth Equity Investment Option (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303)

- a. Interviews with Priority-Listed Offerors

A motion was made by Trustee Krieg and seconded by Trustee Moto to move into Executive Session at 9:14 a.m. to discuss procurement matters related to Agenda Item No. 1, and to consult with legal counsel. The motion passed unanimously.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Krieg and seconded by Trustee Moto to move out of Executive Session at 11:54 a.m. The motion passed unanimously.**

Prudential staff joined the meeting.

Agenda

Item # 2: Approval of Minutes Nos. 378 and 380, 381, and 382

Ms. Akiyoshi reported that the draft minutes for Minutes Nos. 378 and 380 are still under final review. The Minutes nos. 381 and 382 are ready for the Board's review and action.

A motion was made by Trustee Krieg and seconded by Trustee Villabrille to approve Minutes Nos. 381 and 382, as is. The motion passed unanimously.

Agenda

Item # 4: Discussion on Use of Island Savings Plan Name by Financial Investment Advisors

- a. Report by Prudential on Current Trading Authorizations received within the Self-Directed Brokerage Option and Current Policy for Accepting Trading Authorizations
- b. Approval of Board's Communication to Plan Participants and to Royal State Insurance

Ms. Klassen opened with introduction of Ms. Carol Blumenthal who has joined the Prudential operations team in servicing the Plan. Ms. Blumenthal is based in California.

Ms. Klassen reviewed the Prudential report on follow-up information regarding the current trading authorizations within the Self Directed Brokerage Account that were received from Registered Investment Advisors (RIA). Ms. Klassen summarized that there are 26 trading authorizations in place among the 146 SDB accounts. Of the 26 authorizations, there are no fee payments that are being made from the account. Ms. Klassen also provided the legal authority to permit fee payments to RIAs, and discussed the following options: (1) to continue allowing the practice of RIAs; or (2) to eliminate the practice of allowing RIAs. There are complexities surrounding the last option.

Trustee Moto pointed out that there is no indemnification in place on the trading authorization form. The Board discussed their scope of responsibilities and the obligations. The Board further discussed that there needs to be sufficient disclosures and clear Plan communications to participants that state by enrolling in the SDBA you will be doing so at your own risk; and if you authorize a RIA, you will do so at your own risk..

The Board discussed the process of completing forms to enroll in the SDBA, and the online process of transferring assets from the core investment options into the SDBA. The disclosures that are in place inform participants that investing in the SDBA is at their own risk; however, the informational materials do not currently have disclosures regarding a third party acting on the behalf of participants. The trading authorization should have indemnification language to protect Prudential and also the State, the Plan, and the Board. Ms. Klassen stated that they will check to see what prompts are in place on the website when participants are accessing the SDBA option, and to report back for further discussion on whether further online prompts and screens are necessary.

The Board raised the question of fee payments to RIAs. When there is an arrangement for a fee payment to a RIA, there is a bill for collection that Prudential pays the RIA from; however, if there should be a dispute then it opens the issue up for the potential of liability.

The Board did not have any objections to keeping the current practice of allowing participants in the SDBA option to have third parties to be authorized, but believes that the indemnification language should be changed and have sufficient disclosures informing participants that the risk is on the participant and not the State, the Plan, and the Board. Recommendations that address the risk factor will be presented at the next Board meeting.

Chairperson Chu called a lunch break at 12:34 p.m.

Chairperson Chu resumed the meeting at 1:18 p.m.

Chairperson Chu noted that Agenda Item # 6 will be taken at this time. The Board did not have any objections.

Agenda

Item # 6: Staff's Administrative Report to the Board

a. Status on DHRD's Request to Establish a Position for the Plan

Trustee Krieg reported that a draft of the position description for the new position in DHRD to staff the Board has been prepared. The Board members can direct any recommendations or suggested edits on the description directly to her by the end of the month. She noted that there are no further updates on the establishment of the special funded account which must be done before the filling of the position.

Chairperson Chu stated the Board will now move back to Agenda Item # 4.b.

Agenda

Item # 4: Discussion on Use of Island Savings Plan Name by Financial Investment Advisors

b. Approval of Board's Communication to Plan Participants and to Royal State Insurance

DAG Tam discussed the two (2) communication letters that the Board wanted to send out. One is to participants about the use of Registered Investment Advisors and that the Board has not endorsed or approved, nor is the Board affiliated with any advisors and that if participants use RIAs, they do so you do at their own risk.

The other is to Royal State Insurance about the mailer that they sent to employees which seems to imply that the Board endorses the specified agents/companies or that they are affiliated with the Board. The letter further states that this can be misleading and also asks them to stop using the Plan's name in their communications.

The Board did not have any changes or objections.

Agenda

Item # 5: Plan Administrator's Report

a. Follow-up on Plan Participant Issues

Ms. Klassen referred back to Prudential's report to address the criticism that came in on their call center experience and local office staff service. Prudential staff values each participant, so to the extent that they receive the complaints, Prudential tries to research the basis or catalyst that created the complaint. In the instance of the call center responses, Prudential will be changing the Honolulu office contact numbers so there will be a direct local office number on a recorded line. In the instance of the employee finding the local service office vacant, Mr. Malmud stated that the employee had gone to the former TPA's office when he spoke with her. The employee is now fine with the situation.

Agenda

Item # 6:

Staff's Administrative Report to the Board

b. Highlights on Activities

Ms. Akiyoshi provided brief highlights on the activities that are being monitored:

- With the TPA – it was noted that the 2014 allocations for the Plan's Lifecycle Portfolios were completed in May; and the audit agreement under ING's contract is still ongoing with a couple of pending items that still need to be completed;
- With the Plan's Consultant;
- With the Investment Fund managers; and
- With the TPA for the PTS Plan.

In response to Chairperson Chu's inquiry on the monitoring of excess deferrals in the Plan, Ms. Klassen and Mr. Malmud stated that the deferrals are being monitored; however, they are still working to institute an automated process that would monitor the participants' limits that might be exceeded.

Agenda

Item # 7:

Other Business/Announcements

a. Annual NAGDCA Conference for 2014

Ms. Akiyoshi reported that for the upcoming annual conference, the Trustees that are planning to attend are Trustees Chu, Young, Moto, and Okumoto. The staff that is going is Ms. Akiyoshi. There are still two (2) responses that are still pending.

Ms. Akiyoshi announced that the new crediting rate for the PTS Plan was received from Life Insurance Company of the Southwest. The rate that is effective on July 1, 2014 is 2.87% which will increase by 2 basis points from this current quarter.

Ms. Akiyoshi noted that information from the Ethics Commission on the gifts disclosure reporting was included in the packets.

Chairperson Chu adjourned the meeting at 1:37 p.m.

(NOTE: Signed copy on file.)