

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

**OPEN SESSION MINUTES
MEETING # 418**

Date: November 30, 2017

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

Present: Brian Moto, Chairperson
Wesley Machida, Ex-Officio Member
Kanoë Margol, Employee Member
Kalei Rapoza, Employee Member
Roderick Becker, Employee Member (arrived at 10:25 a.m.)

Others: Krishna Jayaram, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Glenn Ezard, Segal Marco Advisors
Kevin Malmud, Plan Administrator Staff (Prudential)/Honolulu Office
Grace Baracao, Plan Administrator Staff (Prudential)/Honolulu Office
Jeanne Kanai, Plan Administrator Staff (Prudential)/Honolulu Office
Julie Klassen and Carol Blumenthal, Prudential Retirement – via conference call

Absent: James Nishimoto, Ex-Officio Member
Kenneth Villabrille, Employee Member

Call to Order: There being a quorum present, Chairperson Brian Moto 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.

Chairperson Moto welcomed everyone and noted that Trustees Nishimoto and Villabrille are excused from this meeting, and Trustee Becker is expected to arrive later. He stated that there were no guests from the public in attendance.

Chairperson Moto asked the Board members if there were any objections to proceeding to Agenda item #3.d. which is a priority item, since Trustee Machida needs to leave the meeting for a short while. There were no objections.

Agenda

Item # 3: Ongoing Business

- d. Status and Consideration on the Contract Award for the Replacement of the J.P. Morgan Diversified Real Return Fund

A motion was made by Trustee Machida and seconded by Trustee Rapoza to move into Executive Session at 9:05 a.m. to confer with the Plan's legal counsel on Agenda items 3.d., and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303. The motion passed unanimously.

EXECUTIVE SESSION

All guests were excused except for Segal Marco Advisors.

Meeting

Reconvened: **A motion was made by Trustee Machida and seconded by Trustee Rapoza to move out of Executive Session at 9:22 a.m. The motion passed unanimously.**

All guest rejoined the meeting. Chairperson Moto continued the meeting.

- d. Status and Consideration on the Contract Award for the Replacement of the J.P. Morgan Diversified Real Return Fund

Chairperson Moto stated that the Board discussed and agreed on the alternative option to move the assets from the J.P. Morgan fund on December 1, 2017 to the Vanguard Wellington fund due to time constraints and not having an executed contract with the selected investment manager.

A motion was made by Trustee Rapoza and seconded by Trustee Machida to ratify the Chair's decision to instruct Prudential to map the J.P. Morgan funds to the Vanguard Wellington Fund, as soon as administratively feasible, to rebalance the LifeCycle portfolios to remove the J.P. Morgan fund and adjust the allocations across the remaining funds, as soon as administratively feasible, and to rebalance the portfolios to add the new selected investment option at the appropriate time after execution of a contract. The motion passed unanimously.

A motion was made by Trustee Machida and seconded by Trustee

Margol to approve the contract with the selected investment manager, and to authorize the Board Chair to sign and execute the contract services agreement and any ancillary agreements. The motion passed unanimously.

Trustee Machida was excused at 9:26 a.m. Chairperson Moto asked the Board members if there were any objections with proceeding with the informational agenda items, #3.a. and 3.b while in recess until more members rejoined the meeting. There were no objections.

Agenda

Item # 3:

Ongoing Business

- a. Status on the Request For Proposals for the Off-the-Shelf Target Date Fund Investment Options

Ms. Akiyoshi reported that the RFP was issued on November 13, 2017. Written questions were received and Board staff is working on preparing the written responses by December 8, 2017. An addendum will be issued. The written proposal responses will be due on January 12, 2018.

- b. Status on the Contract Award for RFP No. DCP-16-2, For an Active U.S. Large Cap Core Equity Investment Option to Replace the Victory Institutional Diversified fund

Ms. Akiyoshi reported that the contract has been executed, and Board staff is preparing for the coordination and transition of assets between Victory, Prudential and Capital Group. Notification letters and announcements are in progress, but still pending.

Chairperson Moto called a break at 9:39 a.m., until the Board has a quorum to resume the meeting. Trustees Machida and Becker arrived at the meeting, and the meeting resumed at 10:25 a.m.

Chairperson Moto proceeded to Agenda item #3.c.

- c. Discussion and Consideration on Possible Course of Action Related to Victory's Retroactive Revenue Sharing Issue and Potential Settlement Agreement

A motion was made by Trustee Machida and seconded by Trustee Rapoza to move into Executive Session at 10:26 a.m. to confer with the Plan's legal counsel on Agenda items 3.c., and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or

**federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303.
The motion passed unanimously.**

EXECUTIVE SESSION

All guests were excused except for Segal Marco Advisors and Ms. Klassen from Prudential.

Meeting

Reconvened: **A motion was made by Trustee Rapoza and seconded by Trustee Margol to move out of Executive Session at 11:17 a.m. The motion passed unanimously.**

All guests rejoined the meeting. Chairperson Moto continued the meeting, and proceeded to Agenda item #2.a.

Agenda

Item #2:

PTS Plan

- a. Decision making on proposed amendments to Hawaii Administrative Rules (HAR), Title 14, Subtitle 6, entitled “State of Hawaii PTS Deferred Compensation Retirement Plan (for Part-Time, Temporary, Seasonal/Casual Employees)”

Ms. Akiyoshi reported that DHRD has been working on getting the preliminary approvals for the proposed amendments for the PTS Plan rules which would add references to participating counties. The proposed rules were sent out for comments to the departments and union organizations. One department’s comment was to ask for clarification that the definition of employer (i.e., State) would not inadvertently exclude them from the PTS Plan. Response was given back to the department to say that the definition would not exclude them and the list is not comprehensive so it would not be necessary to explicitly list them. Comments did not affect the wording of the amendments, and a public hearing was held on November 15, 2017. No one from the public attended. The Board staff is requesting the Board to adopt the proposed rules before submittal to the Governor for final approval and adoption.

A motion was made by Trustee Rapoza and seconded by Trustee Margol to adopt the proposed amendments to the PTS Plan rules. The motion passed unanimously.

Chairperson Moto stated he would return to the beginning of the meeting agenda, and proceeded to Agenda item #1.a.

Agenda

Item #1: New Business

a. Discussion and Action on Missed Contributions that occurred for a County of Maui Participant

Ms. Blumenthal reported on a situation that was discovered, during the audit of the Plan, that a County of Maui participant had some missing contributions which did not go through payroll for the current 2017 calendar year, as well as for three prior years. She noted that there was also a similar incident with another participant of missed contributions that occurred in prior years due to an error by Prudential. Prudential is looking for a correction method for situations involving contributions that were missed in prior years.

She explained that in the case involving the County of Maui participant, the participant made changes in 2014 to increase his deferrals from \$50 to \$100. Information was entered into the Prudential system and confirmation letters on the action were sent by Prudential. When the County of Maui went into their system to make the rate change, they discovered that they had 2 employee records for the employee and looked at the record that showed the employee was terminated. Therefore, the county took no actions to change the contribution amounts were made into the payroll system.

In accordance with the instructions given by the Board's staff, Prudential reached out to the participant on the 2017 missed contributions to ask whether he wanted to increase his deferrals going forward for the remaining payroll dates in 2017. The participant indicated that he did not wish to make up for the missed contributions for 2017. In order to help employers identify and avoid missed contribution changes such as in this case, Prudential will be providing periodic instructions to all county payroll agencies on how to check the payroll changes on the sponsor site and run reports to match rates between Prudential and their systems.

To correct the prior years' missed contributions (for 2014 to 2016), some possible remedies that are acceptable as ERISA safe harbor options are:

- 1) County of Maui does not have to take any action, since the onus is on the participant and the statements state that the participant should check their quarterly Plan statements and pay stubs for any discrepancies.
- 2) In following the EPCRS correction guidelines, the Employer would make up 50% of the missed contributions, plus earnings. So, County

of Maui would cover 50% of the missed contributions for 2014 to 2016, and for the incident involving Prudential's error, Prudential would cover 50% of the missed contributions for the 2015 to 2016 prior years, plus earnings.

- 3) The Employer, the County of Maui, would fund 100% of the missed contributions, plus earnings.

The Board discussed the possible remedies and agreed with Trustee Rapoza's suggestion to defer a decision until the next Board meeting, to afford review time to determine the extent of the Board's roles in setting policies. Chairperson Moto asked that a draft communication to County of Maui be prepared for review.

b. Participant Inquiries Regarding the Addition of a ROTH 457 Option

Chairperson Moto stated that when he attended the Benefits Fair in Hilo, he and Trustee Margol were approached by two attendees who inquired about a ROTH option for the Plan. The two employees sent in written inquiries urging Board members to consider adoption of a ROTH option in the Plan. Trustee Margol added that she has received comments and interest periodically from employees who would like to see a ROTH option added to the Plan and asked for the reasons for not adopting the option.

Trustee Becker raised the concern on the number of options that are currently in the Plan which does contribute towards the difficulty participants have in understanding the options that are available, as well as participant inertia. He also remarked that timing to make changes to the payroll format is not good right now since the payroll system conversion process is underway to make the system enhancements. Once the enhancements have been made, the State payroll can look during the latter part of 2018 at further system enhancements. Trustee Becker commented that he could have someone come in to present information to the Board on the payroll's capabilities. Chairperson Moto added that future discussions are needed to review whether changes to the statutory language would be necessary and to check whether the counties would be able to accommodate the necessary payroll changes. Mr. Malmud noted that Prudential is able to follow-up with the counties.

Agenda
Items #3.a
and 3.b:

Ms. Akiyoshi made the same informational report as earlier on items #3.a and #3.b for the benefit of the public and the members.

There was no other business. Chairperson Moto thanked everyone for attending today's meeting.

A motion was made by Trustee Rapoza and seconded by Trustee Margol to adjourn the meeting at 12:09 p.m. The motion passed unanimously.

(NOTE: Signed copy on file.)