

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

**OPEN SESSION MINUTES  
MEETING # 326**

Date: October 8, 2008

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

Present: Marie C. Laderta, Chairperson  
Wayne Chu, Employee Member/Vice Chairperson  
Carol Raber, Employee Member  
Ken Taira, Member  
Ryan Ushijima, 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 Kristine Matthews - ING-Boston Office (via conference call)  
Melody Takacs - ING – Honolulu Office

Absent: Georgina Kawamura, Employee Member  
Sandi Yahiro, Employee Member

Call to Order: There being a quorum present, Chairperson Laderta called meeting to order at 8:50 a.m.

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 requested that Agenda item # 2 be taken out of order and addressed upon the arrival of Trustee Yahiro. The other Board members agreed.

Agenda

Item # 1: Approval of Minutes Nos. 279, 280, 306, 307, 321 and 322

Chairperson Laderta stated Agenda item #1 would be deferred to the next meeting as the meeting minutes were not ready for the Board's review.

The Board agreed to take item # 2 out of order to discuss later in the meeting.

Agenda

Item # 3: Proposed Schedule for Semi-Annual Meeting on the Big Island

Ms. Akiyoshi announced that the Board's semi-annual meeting will be held on November 19, 2008 at the Hawaii County - Aupuni Conference Room on the Big Island. The Board approved the proposed meeting agenda.

It was also announced that the Employees' Benefits Fair is scheduled for November 20, 2009, the day following the semi-annual Board meeting. Ms. Akiyoshi asked that the Board members send her an e-mail to confirm whether they will be attending the meeting and/or Fair so that the necessary arrangements can be made.

Agenda

Item # 4: Overview of Recent Credit Crisis Occurring at Major Financial Institutions

Mr. Saharic noted the declining investment market situation is the result of bad loans being made with creative financing products. This has led to cash hoarding and financial institutions not being lent money, among the many effects. He mentioned some of the recent notable events due to the declining market, such as the collapse of Lehman Brothers and Washington Mutual and the government takeover of Fannie Mae and Freddie Mac.

Markets have declined significantly. The U.S. and non-U.S. equity markets are down. In regards to fixed income, the markets are down; however, not as low as the overall equity markets.

Mercer has been closely monitoring the Plan and each of the investment managers. As with the overall market, investments have declined; however, some have not declined as much or have actually had gains. Mr. Saharic noted that the Plan's exit out of the Fidelity fund came at a good time as the replacement fund, Victory, has been doing well. And, the Stable Value Fund rate at 4.42% is higher than money market funds.

He cited Fidelity's significant exposures to failing or collapsed entities such as AIG, Wachovia, Bank of America, and Lehman Brothers. Companies with such exposures have experienced significant losses. He reviewed the other investment options in the Plan and noted they each have minimal such exposure.

In summary, Mr. Saharic stated that Mercer continues to watch the Plan and

investment managers closely. There has been minimal negative exposure and, therefore, minimal negative impact on investment performance; however, he noted that markets are down altogether. They are seeing some panic among participants. From Mercer's perspective, they feel the markets will rebound and do not foresee a great depression. They are forecasting a modest recovery in the overall equity market in the first two quarters of 2009.

Trustee Raber shared with the Board that at the last NAGDCA conference it was noted that Stable Value funds have had the best performance of asset classes in the last ten (10) years. She also commented that was positive in that the Plan has such a high number of participants in the Stable Value Fund and it holds 50% of the Plan assets. Trustee Raber then asked Mr. Saharic if, due to the current market situation, the Board should consider reallocating the Lifecycle Funds. Mr. Saharic stated that it is nearing the time interval for the Board to consider rebalancing the Lifecycle funds. Mercer is in the midst of conducting an analysis to make a determination of needed adjustments and submit a proposal to the Board. He recommended to the Board delaying any adjustments to the Lifecycle allocations until the market rebounds and noted that a change to more conservative allocations will lock in recent losses. Trustee Raber asked when the Lifecycle Fund portfolios were last rebalanced. Ms. Akiyoshi responded that the last rebalancing was implemented in September 2007. Mr. Saharic stated that, although it may seem to make sense to reallocate and rebalance at this time, the Plan is set up for long-term participants and long-term investments. Working with Board staff, Mercer will complete their analysis and provide information to the Board at the next meeting.

Agenda

Item # 5:

Discussion on the Plan's Investment Options Structure

a. Discussion on RFP for Index Managers and a Large Cap Growth Equity Manager

Mercer has completed their review of the RFP and provided their comments and suggested revisions to the Board's staff. Staff will be finalizing the RFP and submitting to the Board for approval at the next meeting.

b. Discussion on adding a Brokerage Window

Mr. Saharic confirmed that the Board provided tentative approval to add a brokerage window to the Plan and asked ING representatives to provide available information regarding their capabilities of providing a brokerage window.

Mr. Saharic stated that initially the Board was provided with information about State Street; however ING now uses TD Ameritrade as its preferred

brokerage provider. Ms. Cann noted the TD Ameritrade product is significantly lower in fees than the State Street product. ING is preparing to roll out the product to many clients.

Mr. Saharic questioned what the minimum investments would be for Plan participants to use the service. Ms. Cann stated that she did not have those details as it is such a new product and no other clients are yet using the service. She stated she would have such information available at the next Board meeting.

Mr. Saharic discussed offering a fully open brokerage window versus one that is restricted to mutual funds only. The Board confirmed that it would like a fully open brokerage window. Mr. Saharic stated the Board would need to decide on any minimum investments in the window aside from that imposed by the broker. Mr. Saharic asked Ms. Cann to provide the broker minimum investment information so that Mercer can prepare a memo to the Board regarding their recommendation.

DAG Tam questioned if there are any other types of limitations with respect to participation in the brokerage window. Mr. Saharic stated that there are standard industry limitations. Ms. Cann offered to gather that information and provide it to the Board at the next meeting.

DAG Tam also questioned Ms. Cann if ING has the capabilities to use other brokerage providers aside from TD Ameritrade and how much it would cost to implement the service. Ms. Cann stated she was not sure; but, would gather that information and will report back to the Board at the next meeting.

Mr. Saharic asked that Ms. Cann provide the information to Mercer to they can evaluate the information and include it in their analysis and recommendation to the Board at the next meeting.

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Item # 6:

Updates on Communications Campaign for Investment Advice

Ms. Matthews provided an update to the Board regarding the investment advice communication campaign. It was reported that investment advice brochures were mailed to participants on September 5, 2008 and Personal Evaluation Statements were mailed on September 19, 2008.

To date, 300 participants logged onto the online service and 184 enrolled in the Professional Account Management program. 58% of the participants enrolled via hard-copy enrollment form, 34% enrolled via phone service, and 8% enrolled through the website. ING will continue to monitor the service and report back to the Board.

Ms. Akiyoshi reported that Frequently Asked Questions (FAQs) were developed to help participants regarding the investment advice service which has been posted on the Plan's website and is being distributed to employees by Plan Representatives from the Honolulu Office.

DAG Tam reported that based on information provided by ING, the budgeted accounts established under the contract with ING for expenses are within budgeted amounts. ING will cover the monthly \$6 investment advice fee for the first two (2) years of the contract, and the Plan appears to have sufficient funds to cover the remaining years contract.

Agenda

Item # 7:

Plan Administrator's Report

a. Plan Reports and Announcements

Ms. Takacs reported that for the period August 1, 2008 to September 30, 2008, the Plan Representatives from the Honolulu Office conducted 119 group meetings with a total of 1,131 attendees, conducted 217 one-on-one meetings, handled 976 calls and 90 office walk-ins and processed 159 new Plan enrollments. She noted there have been an increase in inquiries for Unforeseen Emergency Withdrawals.

The Plan Administration report was provided by Ms. Cann. In regards to investment advice, it was reported that more than 10,000 Personal Evaluation Statements were mailed to participants on September 19, 2008. With the assistance of Ms. Akiyoshi, ING has been working to obtain Plan participant salary information from other government jurisdictions to be able to provide statements to those participants. ING subsequently received participant salary information from the House of Representatives, State Ethics Commission, and the Legislative Reference Bureau. 545 Required Minimum Distribution notifications for 2008 were mailed on September 24, 2008. ING continues to work with Department of Education in developing an automated process to share Plan participant demographic information.

b. CitiStreet's Income Solutions Service to Provide Annuity Options to Participants

Ms. Akiyoshi reported that staff will be focusing on this matter once investment advice is fully implemented.

Ms. Akiyoshi shared with the Board that the 3<sup>rd</sup> quarter Plan newsletter will soon be distributed. It will include the announcement that, under

ING's new contract, Plan administration fees were lowered from 23.1 to **19.3 basis points** effective July 1, 2008. Ms. Cann stated that the newsletter will also include information about adjustments made to participant accounts in September to account for the lower fee application retroactive to July 1, 2008. The newsletter will also include the announcement of the addition of investment advice to the Plan at no additional cost to participants.

DAG Tam summarized that when the administrative fees were lowered, rather than collecting the lower fees of 19.3 basis points effective July 1, 2008, ING continued to collect the higher 23.1 basis point fees for the months of July and August 2008. Participant accounts were adjusted in September to correct the matter and apply the new lower rate thereafter.

INVESCO also had to recalculate the crediting rate for the Stable Value Fund to adjust for the collection of the higher fees in July and August and to take into account the additional interest participants actually earned due to the lower fees administrative fees applied. Therefore, for the 4<sup>th</sup> quarter the new crediting rate will be 4.42% to provide the additional interest participants should have earned for the 3<sup>rd</sup> quarter, including those participants who moved their money out of the Stable Value fund during this time.

Agenda

Item # 8:

Old Business

a. Proposed Communication(s) to Non-Participants

Ms. Akiyoshi stated this matter has been on hold while other Plan initiatives are completed.

Agenda

Item # 9:

PTS Plan

a. Tracking of Inactive PTS Plan Participants

DAG Tam reported that he continues to research matters pertaining to this agenda item.

Agenda

Item # 10:

New Business and Announcements

a. Proclamation for National Save for Retirement Week

Ms. Akiyoshi shared that it was announced at the NAGDCA conference

the Board recently attended that the annual National Save for Retirement Week has been designated for October 19-25, 2008. Historically, an announcement has been featured in the Plan's newsletter. Per the Board's request that a proclamation from the Governor be prepared regarding National Save for Retirement Week, a draft proclamation was shared with the Board, which was accepted for submittal to the Governor's Office.

Trustee Ushijima questioned if the Board will need to go through the State procurement process to include the brokerage window in the Plan. DAG Tam responded that he is researching the matter and is awaiting information from ING as to their ability to work with more than one brokerage provider. Trustee Ushijima requested that a legal conclusion be provided at the next Board meeting.

Trustee Ushijima also questioned the delay in offering annuity options to participants. Ms. Akiyoshi responded that communication campaign needed to be further developed to announce the service in the Plan. ING has some draft communication pieces for the Board's communication subcommittee to review. Trustee Ushijima asked if they can be prepared for the next meeting and he is willing to help review. Ms. Akiyoshi stated it will be worked on and noted that the annuity option is a component to the retirement package that staff is working to put together for participants.

Chairperson Laderta announced that Trustee Taira's re-appointment to the Board was confirmed by the Legislature. It was noted that Trustee Raber's term expires in December 2008 and Trustee Chu's term expires in June 2009.

#### Agenda

#### Item # 2: Ratification of UEW Case Nos. 179a, 184, 188, 189, 191

Chairperson Laderta noted that it appears Trustee Yahiro will not be able to attend the meeting and lead the discussion on the UEW cases submitted for Board review. Ms. Akiyoshi and Ms. Cann then proceeded to review the UEW cases with the Board.

The Board reviewed and discussed UEW Case Nos. 179a and 191.

**A motion was made by Trustee Ushijima and seconded by Trustee Raber to ratify the UEW subcommittee's approval of UEW Case Nos. 191 and 179a. The motion passed unanimously.**

The Board then reviewed UEW Case No. 184.

**A motion was made by Trustee Ushijima and seconded by Trustee Chu to**

**approve ING's recommendation to approve UEW Case no. 184 for \$2,959.91, with this amount grossed up to cover the required tax withholding. The motion passed unanimously.**

The Board reviewed UEW Case No. 188.

**A motion was made by Trustee Ushijima and seconded by Trustee Raber to approve UEW Case No. 188 as requested. The motion passed unanimously.**

The Board then reviewed UEW Case No. 189.

**A motion was made by Trustee Ushijima and seconded by Trustee Raber to approve UEW Case No. 189 as recommended by the Board's UEW subcommittee. The motion passed unanimously.**

**A motion was made by Trustee Ushijima and seconded by Trustee Raber to add to the agenda UEW Case No. 193 for ratification. The motion passed unanimously.**

The Board reviewed UEW Case No. 193.

**A motion was made by Trustee Ushijima and seconded by Trustee Raber to approve UEW Case No. 193 as recommended by the Board's UEW subcommittee. The motion passed unanimously.**

**A motion was made by Trustee Taira and seconded by Trustee Ushijima to adjourn the meeting at 10:23 a.m. The motion passed unanimously.**

(Note: Signed copy on file)