

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

**OPEN SESSION MINUTES
MEETING # 436**

Date: August 4, 2020

Place: Department of Human Resources Development
14th Floor Director's Conference Room
235 S. Beretania Street, State Office Tower
Honolulu, HI 96813

Present via

Teams Link: Brian Moto, Chairperson
Ryker Wada, Ex-Officio Member
Robert Yu, Ex-Officio Member
Kalbert Young, Employee Member
Kalei Rapoza, Employee Member
Reiko Matsuyama, Employee Member

Others via

Teams Link: Randall Nishiyama, Deputy Attorney General
Cynthia Akiyoshi, DHRD Staff
Craig Chaikin, Segal Marco Advisors
Wendy Carter, Segal Marco Advisors
Rob Luciani, Prudential Retirement
Kevin Malmud, Plan Administrator Staff (Prudential)/Honolulu Office
Julie Klassen, Prudential Retirement
Kellie Lanko, Prudential Retirement
Carol Blumenthal, Prudential Retirement
Deborah Baran, Prudential Retirement
Jeanne Kanai, Plan Administrator Staff (Prudential)/Honolulu Office
Grace Baracao, Plan Administrator Staff (Prudential)/Honolulu Office

Call to Order: There being a quorum present, Chairperson Brian Moto called the meeting to order at 9:06 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.

Agenda

Item # 1: Welcome and Introduction of Incoming Board Member(s)

Chairperson Moto welcomed everyone and proceeded with introductions. He introduced the new incoming board member, Reiko Matsuyama, Finance Director from the County of Kauai. Trustee Matsuyama provided some introductory remarks on her background. Chairperson Moto added that Trustee Kalei Rapoza has been reappointed to the Board for a second term, and he congratulated both on their appointments. He continued with the introductions of the Board members, Board staff, and other guest attendees.

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Item # 2: Public Testimony Period

There was no one from the public in attendance to offer testimony.

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Item # 3: Approval of Minutes No 434 for the February 7, 2020 meeting and Minutes No. 435 for the April 23, 2020 meeting

There were no comments or changes offered by the Board members.

A motion was made by Trustee Wada and seconded by Trustee Yu to approve Minutes No. 434 and 435, as presented. The motion passed unanimously.

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Item # 4: Annual Deep Dive Analysis by Segal Marco Advisors, including but not limited to:

a. Presentation on Impact of COVID-19 and Cyber Security Protocols by Prudential Retirement

Chairperson Moto stated that Ms. Wendy Carter from Segal presents a deep dive annually to highlight some observations and trends in our plan. Prudential Retirement will also be presenting on cyber security protocols that are utilized to keep the Plan secure.

Ms. Carter discussed cyber security for defined contribution plans and how timely this subject may be during this time of upheaval. She acknowledged Prudential and all other record keepers who have been able to handle this pandemic without skipping a beat. They have been hands on in helping participants who were panicking due to the changes in the market. She explained about cyber risk, and the importance of being aware of this risk:

- It is about participants having a comfortable retirement and a retirement plan that protects them.
- Retirements plans are considered one of the participant's largest financial assets.

They are looking for more federal oversight and guidance. The ERISA Advisory Council and the GAO (Government Accounting Office) are starting to review the cyber risk to plans and are undertaking a new study. Cyber threat risks that fiduciaries of a defined contribution plan need to be concerned about are:

- Disruptions of the business operations.
- Any potential financial losses, litigation, remediation, and fines.
- The U.S. does not have laws or process to measure the effectiveness of cyber protections, aside from the protocols used by record keepers in protecting individual personal information; more legislation is needed on how breaches are to be treated.
- In general, there have been breaches in the past so it's a reminder to be aware that data breaches occur and that can result in large data costs to remedy and contain the situation. The average costs spent are \$3.6 million to resolve the data breach.
- There is a need to be vigilant about fraud and there is a need to educate participants to keep the Plan safe because fraud can happen. With the pandemic, the number of cases within the industry have increase dramatically.
- In cases of account takeover fraud, a person gets the identity of the account holder and takes over the account using the service channels to steal the funds, so it is important to conduct regular education for participants about cyber security, and having tips and pop-ups.
- It is important to maintain password security. There are a lot of common passwords that are used and can be vulnerable.
- Platforms used by recordkeepers within the defined contribution industry can be complex. Some considerations when looking at risks out there are to examine your cyber security framework and the information security controls to ensure there's a process that would allow documents and reports to reassess clients and that appropriate due diligence is being done.
 - The SPARK (Society of Professional Asset-Managers and Record Keepers) organization that represents defined contribution record keepers created a committee of record keepers which worked together to develop a process to ensure due diligence within the cyber security framework. The auditor would use the SPARK standards for the defined contribution record keeping and make reports, like the SOC reports, available to plan sponsors. Those reports are the way to determine that the record keeper is satisfying the standards that guide fiduciaries who have the duties to protect the trust from property loss; preserve confidentiality and privacy; select and monitor service providers; and protect data.
- In protecting sensitive data, fiduciaries need to oversee and monitor key areas such as if the TPA has a disaster recovery plan; has a security policy with remedies; conducts SOC 1 and SOC 2; has a fraud policy and looks for fraudulent behavior; and has effective controls for sensitive data.

Ms. Klassen remarked that in the Second Quarter 2020 Plan newsletter, an article has been featured on cyber security and suggestions on what participants can do to ensure cyber security. She added that Prudential has the SOC reports available.

Ms. Lanko discussed how Prudential addresses cyber security:

- Prudential has layers of oversight to ensure that they are compliant.
- Prudential is regulated by the New York Department of Financial Services in addition to being regulated at a banking level because of the Prudential Bank and Trust being an entity within Prudential Retirement.
- Cyber security is a control to prevent privacy breach.
- Account takeover is when there are fraudulent activities within an account.
- Prudential has a special center with staff to monitor account activity.
- Prudential has established a fraud control program:
 - A team collects data and activities and based on a combination of activities; the program looks for suspicious activities such as a change of mailing address within a short timeframe along with a money out transaction.
 - There are controls and tools in the program without having to create friction.
 - MFA (multi factor authentication) is in place for participants to enable.
 - Accounts that are not registered are at a higher risk for fraud activity.
 - Voice prints of fraudsters are in maintained in the program. Prudential is looking to expand where participants can register their voices through authentication.
 - There are device technologies to recognize phones.
 - Prudential is a member of LOMA/LIMRA, a fraud sharing forum, that maintains a centralized database. They are able to get real-time alerts of fraudsters.
 - Cyber security controls within the framework that consist of layers to prevent unauthorized access.
 - Prudential has a customer fraud loss protection program to reimburse accounts that may be impacted.

Mr. Malmud added that the local office team has undergone training related to protection of sensitive data, along with a high-level internal oversight.

In response to Trustee Yu's question on the coverage of the losses, Ms. Lanko stated that Prudential does cover 100% of the losses to make the account whole, with the exception of actions that may not be covered such as when there has been sharing of passwords, whether users are maintaining protections on their computers.

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Item # 5:

Plan Administrator's Report:

- a. Plan Highlights for the First and Second Quarter 2020

b. Reporting on the CRD Withdrawals and RMD Waiver Options

Ms. Klassen opened with congratulatory remarks on the Plan receiving two (2) Leadership Awards from NAGDCA, followed by highlights of the First and Second Quarters 2020:

- The Plan received one Leadership Award for the life stage marketing communications which focused on the new employees starting their work careers through the stage when employees are nearing retirement, and the second award in the Technology and Social Media category for the Go-Green joint campaign with the State of Vermont.
- The other key event is the launch of the first-ever Virtual Benefits Fair with a welcome message by the Board Chairperson that kicked off the event in a positive way for the approximately 825 employees who attended.
- Prudential is monitoring legislation regarding changes to the Secures Act.
- Prudential is monitoring and tracking withdrawals under the CARES Act.
- IRS has released additional guidance related to the CARES Act.
- IRS Notices 2020-50 and 2020-51 were issued and pertain to government plans.
- The guidance also expands the option related to those annual RMDs that were taken and allows those participants to do indirect rollovers back to the Plan by the end of August 2020.
- RMD (Required Minimum Distribution) waivers within the Plan that were suppressed totaled 3,287 participants: 3,166 are participants and 121 are beneficiaries. Participants receiving installments were not stopped. Ms. Blumenthal added the mailings on RMD waivers were sent to notify participants that they were not required to take the RMDs this year.
- The Market Volatility Call Center has seen an increase in the call volume and a longer response time in addressing participants' questions.
- Roadmap on initiatives that are on the horizon:
 - Expansion of the GoalMaker asset allocation model to include an opportunity to use a non-core option, if there is an interest.
 - Enhancements are planned to technology such as mobile enhancements and chat box resources to guide participants more thoughtfully into their desired needs.
 - Enhancements and redesigns are planned to the RIC (retirement income calculator) to help participants make their decisions.
 - Development of decumulation strategies.

In response to Trustee Matsuyama's question on how RMDs compare nationally, Ms. Blumenthal explained that through July, 24% have chosen to continue their RMDs. Now it is about 7-7 ½%. She expects that there may be additional participants who will continue their RMDs because of the pandemic.

Ms. Klassen reported that 10 participants took CRD withdrawals that were at the maximum limit amounts of \$100,000. There were 167 CRDs that contributed

towards the \$4.6 million in outflows. This averaged about \$28,000 per participant which is higher than compared to across Prudential's book of business but not large compared to the size of this Plan.

Trustee Yu asked how CRDs would impact the Plan from a contribution and CRD standpoint if furloughs should occur within the State. Ms. Klassen remarked that CRD withdrawals would have an impact to cash flows but with rollovers into the Plan and other reach out campaigns to targeted participant groups may balance those outflows. Mr. Malmud added that the other reach out campaigns include talks with participants to evaluate whether all of their requested amounts are needed or not.

Ms. Klassen provided an overview on the asset allocations within the Plan:

- The Target Date Funds, Wellington Research Value Fund, and the State Street Global Advisors Real Asset fund make up the \$360 million of the Plan's assets.
- The Stable Value Fund makes up \$979 million of the Plan's assets.
- The GoalMaker represents about 10% of the Plan's assets, and the Vanguard Target Date funds represents about 6% of the Plan's assets.
- The age 55 years and older make up about 76% of the Plan's assets.
- In the first part of this year, the total contributions into the Plan have remained at a consistent level. The total contributions during the Second Quarter totaled \$21 million.

An overview of the web log-ins, plan demographics, and plan participation rates were reviewed.

Ms. Baran presented highlights of the Plan's communications activities:

- The Virtual Benefits Fair looked at ways to engage participants and transformed a physical fair event in which it would gather a room full of people in a confined space to a virtual concept where there was no close contact needed.
 - Promotional announcements through various mediums, such as emails, postcards and electronic flyers, were developed and released.
 - The virtual plan mirrored the actual fair set up where the investment fund managers could participate via video recordings and live chats to convey their messages.
 - Observed that the live webinars had much more attendance, perhaps partly due to the Fair being opened to all State and county employees.
 - As a result of the overwhelming attendance at the Fair's live webinars, on-demand sessions of those webinars will be made available on the Plan's website.

- Two NAGDCA awards, from technology to participant education, are being presented to the Plan to recognize the efforts of the work being done within the Plan.
- A virtual lunch and learn educational series will be held this year as opposed to the road show event in the past. Announcements will be sent out to promote this event.

Mr. Malmud provided an overview of the Local Office's activities:

- The Local Office counselors have been using the virtual appointment capabilities since the end of 2019 and have been ready to continue appointments virtually when the COVID-19 pandemic hit.
- As a result of the Fair, 146 appointments were generated.
- The Local Office produced the on-demand recordings of the webinars for the Fair.
- The Local Office has been doing calling campaigns to reach out to 450 participants, and as of June 30, 2020 the impact of the calling campaign has resulted in improving the cash flow about 50%.
- Individual counseling has been continuing even in the virtual world.
- From the target date funds campaign with those participants who are invested in multiple target date funds, 39 participants converted to single target date funds.
- The counselors are now utilizing docu-sign to accept electronic signatures.

Chairperson Moto called for a recess at 10:53 a.m. The meeting resumed at 10:58 a.m.

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Item # 6:

Performance Evaluation Report for the Second Quarter 2020 by Segal Marco Advisors:

Mr. Chaikin provided an overview of the Second Quarter 2020:

- The Second Quarter 2020 was unlike the First Quarter 2020. The First Quarter resulted in a decline in the market from mid-March.
- There was a 20% increase in the S&P in the Second Quarter 2020 but the year-to-date was down 3.1%.
- As of Friday, the market was up 2.5%, year-to-date.
- The Federal Reserve has cut the interest rate to 0%, and the Federal government restarted quantitative easing programs.
- Congress has initiated stimulus packages.
- The Russell 1000 growth was up 8.1% year-to-date, compared to value funds which have been down 16.2% year-to-date.
- The IT sector has positively impacted market returns.
- Expected volatility in the market will likely continue for the rest of this year and will likely see a disconnect between the market and the real world.

Mr. Chaikin presented on the analysis of the Plan and reviewed the Plan's scorecard of the Plan's investment options. He noted that the weighted net expense ratio is 29 basis points which is very cost-efficient. Given the market environment, there were no recommended changes.

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Item # 7:

Status on the New Position to Staff the Board:

Ms. Akiyoshi reported that at the last meeting, it was discussed that there was a hiring freeze instituted and DHRD was planning to seek an exemption from the hiring freeze for the new position. The request has been submitted to Department of Budget & Finance, and the request is still under review. Once a favorable response is received, we can proceed with the hiring and interviewing phases. Director Wada did not have any other updates.

There were no additional questions.

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Item # 8:

Status on the Proposed Amendments to Add the Roth 457 option to the Plan:

Ms. Akiyoshi reported that the IRS has recently issued additional IRS Notices, as mentioned by Prudential, that are related to the adoption of the CARES Act and which provides further guidance. These notices are being reviewed to determine any appropriate changes to be incorporated into the Rules amendments.

There were no additional questions.

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Item # 8:

PTS Deferred Compensation Retirement Plan for Part-time, Temporary and Seasonal/Casual Employees (PTS Plan):

- a. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Periods Ending December 31, 2019 and March 31, 2020
- b. Quarterly Management Report for the Period Ending December 31, 2019 and Annual Management Report for the Year Ending December 31, 2019, and Quarterly Management Report for the Period Ending March 31, 2020

Ms. Akiyoshi reported that the Plan asset reports for the PTS Plan, for the periods ending December 31, 2019 and March 31, 2020, are presented for the Board's review and action.

The total combined asset balance in the PTS Plan as of December 31, 2019 is \$138,677,896.46. The total combined asset balance in the PTS Plan as of March 31, 2020 is \$140,830,072.66. The corresponding quarterly management reports for these periods are also provided for the Board's review and information.

Ms. Akiyoshi presented one highlight which is in Exhibit D of the Annual Management Report for the year-end 2019. The total amount of combined final distributions processed out for separating employees totaled \$7,318,901.99. Of note, these distributions reflect the closing of accounts and additionally that the inactive accounts are being addressed. Also, that approximately 16% of the distributions represent rollovers to other eligible qualified plans.

c. Notification on New Interest Rate for the PTS Plan, Effective July 1, 2020

Ms. Akiyoshi reported that the new interest rate effective July 1, 2020 is 2.37% which is up from 2.35% for the Second Quarter 2020 period. The interest rate at the start of 2020, on January 1, 2020, was 2.40%.

There were no additional questions.

A motion was made by Trustee Wada and seconded by Trustee Young to accept the Report of Funds Not Deposited in the State/County Treasuries for the periods ending December 31, 2019 and March 31, 2020. The motion passed unanimously.

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Item # 10: Other Business/Announcements:

a. 2020 Annual NAGDCA Conference:

Ms. Akiyoshi stated that the NAGDCA has announced that due to the challenges presented by COVID-19, this year's annual conference has been cancelled. NAGDCA is offering a virtual engagement and learning series event.

This event will be held on October 5-29, 2020 which will include general sessions, defined contribution community exchange, learning labs, and peer-to-peer exchange.

Chairperson Moto added that it will be an open registration event, so if any Board members are interested in attending, please let Board staff know so that the registrations can be processed.

b. Updates and Highlights of Virtual Benefits Fair:

Ms. Akiyoshi commented that in moving to a virtual fair format instead of sponsoring a live, physical fair event on the Big Island, the Plan was able to sponsor a state-wide fair that is open to all State and participating county employees. Ms. Akiyoshi acknowledged Ms. Deb Baran and Mr. Kevin Malmud for doing an excellent job in coordinating and executing

the technical and production components that were necessary in making the vision into a successful reality.

This statewide virtual fair does fulfill the one benefits fair for this calendar year, and Ms. Akiyoshi recommended foregoing the Fall Benefits Fair, unless the Board had any objections.

Based on the survey results, there was overwhelming interest and attendance at the Fair's live webinars. As such, Prudential is arranging for the on-demand recordings of the webinars to be posted on the Plan's website and to repeat those webinars again as Lunch and Learn webinars. From the 65 surveys that were received, there were many who favored the virtual fair format and those that preferred the in-person, face-to-face format. Since the number of surveys is so low compared to the number of attendees, it is difficult to conclude which fair format is more favorable to employees.

Ms. Akiyoshi noted that if the COVID-19 pandemic continues to present challenges in holding a Fair event, the virtual format may be repeated in the next calendar year.

There were no additional comments on the virtual fair from Board Trustees and no objections on foregoing holding a Fall Benefits Fair this year.

Chairperson Moto shared that he was asked by the Windward Financial Comprehensive agency and has agreed to participate and speak at their educational outreach sessions held for the Department of Education employees and provide some general information on the section 457(b) plan.

Chairperson Moto thanked everyone for attending today's virtual meeting and adjourned the meeting at 11:32 a.m.

(NOTE: Signed copy on file.)