STATE OF HAWAII
DEFERRED COMPENSATION PLAN
BOARD OF TRUSTEES

OPEN SESSION MINUTES
MEETING # 441

Date: October 26, 2021

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: Kalei Rapoza, Chairperson
Ryker Wada, Ex-Officio Member
Kalbert Young, Employee Member
Lance Larsen Jr., Employee Member
Reiko Matsuyama, Employee Member
Ken Kitamura, Employee Member

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

Absent: Roderick Becker, Ex-Officio Member

Call to Order: There being a quorum present, Chairperson Kalei Rapoza called the meeting to order at 9:01 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 Rapoza welcomed everyone and proceeded with the introductions. He introduced the new incoming Board member, Lance Larsen Jr., who is the Equity Specialist from the Department of Education. He also introduced returning Board member, Roderick Becker, who is serving as an ex-officio member from the Department of Budget and Finance. Trustee Larsen provided some introductory remarks on his background. Chairperson Rapoza continued with the introductions of the Board members, Board staff, and other guest attendees.

Chairperson Rapoza asked that Agenda item #10 be taken out of order. There were no objections from the Board.

Agenda
Item # 10: Status on the Filling of the New Position to Staff the Board of Trustees

Ms. Akiyoshi reported that the new position to the staff the Board of Trustees has been filled. She introduced the new staff member, LiAnn Tokuda, to the Board members, Board staff, and other guest attendees. Ms. Tokuda provided some introductory remarks on her background.

Chairperson Rapoza reviewed some housekeeping items.

Chairperson Rapoza asked to return to the regular Agenda and move to Agenda Item #2.

Agenda
Item # 2: Public Testimony Period

There was no one from the public in attendance to offer testimony. Chairperson Rapoza closed the public testimony period for this meeting. There were no objections.

Agenda
Item # 3: Approval of Minutes No. 440 for the June 25, 2021 meeting

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

A motion was made by Trustee Matsuyama and seconded by Trustee Young to approve Minutes No. 440, as presented. The motion passed unanimously.

Agenda
Item # 4: Discussion on Prudential Announcement on the Acquisition of Prudential's Retirement Business by Empower

Ms. Klassen provided remarks and review of the acquisition of Prudential by Empower.

- Prudential Retirement announced a definitive agreement with Empower Retirement for Empower to acquire Prudential's full-service retirement business.
- Empower is the second largest provider of retirement plan services, based upon participant records, with currently over 12 million participants on their record keeping platform and $1 trillion of assets under management.
- The transaction is expected to close in the first quarter of 2022, subject to regulatory approvals and customary closing conditions.
- Prudential believes Empower is a good fit and there is tremendous alignment in the cultural philosophies and commitments of the businesses.

Improvements and enhancements anticipated under Empower.

- Enhanced legal and regulatory support developed for over 60 years as a leader in Government Markets.
- Innovative technology improvements powered by business scale.
- Integrated approach to financial wellness. Looking at the participants holistically, to the extent possible and extent desired on the household experiences of the financial readiness of the human beings behind that participant account.
- Integrated digital advice and in person solutions to desired extent.

Expectations between now and the transaction close.

- Dedicated local staff continues under supervision and management of Kevin Malmud.
- About 96% of Prudential personnel received a formal opportunity to work for Empower.
- In person commitment both locally and on the mainland will continue.
- Customization and good will of the Island $avings brand will continue in materials, communications, and website.

Expectations after the close.

- Not expected to be a conversion in the traditional sense of when Plan sponsors change record keepers.
- No anticipated blackout or quiet period will occur.
- Conversion expected to occur over a weekend.
- Prudential is working to preserve historical records from prior record keepers and will follow up on this the status of this project.

Mr. Luciani wanted to reinforce that the management team will be staying intact through this migration to Empower. Ms. Klassen continued saying the first wave of migration will be at the end of 2022. After the transaction is expected to close in the first quarter of next year, it will take some time to start moving Plans over to Empower's record keeping system.

Mr. Chaikin provided a summary on the announcement of the Prudential to Empower transition. He reasoned that there are unknowns with any transaction, but it is comforting knowing that Empower has done this before and they have an entire team dedicated to these types of transactions and migration aspects. The transaction is "the best of both worlds" as the management team are kept, and the Plan moves to the second largest record keeper.

Trustee Young inquired from Prudential if there is expected to be more vibrant communications to members. Ms. Klassen confirmed there are existing drafts on communications for participants that will be distributed when announcements are ready to be made. Mr. Chaikin added that the two institutions are currently operating as two separate public entities which affects the disclosure level about the conversion. However, a meeting with an Empower representative can be arranged through Prudential. Mr. Luciani added that after the close, there will be a robust participant campaign. Trustee Matsuyama followed up if any action needed to be done by participants which Mr. Luciani confirmed no action was needed.

Trustee Wada asked about the changes in terms of participant interactions post change over. If changes such as URLs and logins will need to be done or will everything be seamless. Ms. Klassen confirmed that the brand will be moving over along with the Island $avings URL and details about reregistering and logins have yet to be confirmed.

There were no further questions from the Board.

Agenda Item # 5: Discussion and Consideration on Fee Reduction Offer by Prudential Retirement, and Potential Action Thereon

Ms. Klassen reported on the administrative fee reduction offered by Prudential for the Plan. The proposition is to reduce the all-in fee from 11 basis points (bps) to 8.5 bps. This results in a reduction of Prudential's fee from 9 bps to 7 bps and a reduction of the required Board funding from 2 bps to 1.5 bps. The reduction of the Board funding to 1.5 bps is allocated to the growth in assets. The all-in fee of 8.5 bps will be deducted quarterly and would be effective October 1, 2021 to be deducted in the beginning of the next quarter in January 2022. Mr. Chaikin agrees that this fee offer is consistent with the trend in the industry. Compared to similar sized plans, the fee reduction to 7 bps is reasonable when factoring in the extensive on-site servicing model. Mr. Chaikin advises the Board that it is sensible to accept the fee reduction from Prudential. Trustee Wada asked for confirmation that the reduction in basis points will not affect the Board funding annually to which Ms. Klassen confirmed it would not.

Chairperson Rapoza questioned if the reduction fees were accepted, if the two-year extension period will last until June 30, 2023. He also asked if the fee level will remain the same once the transition to Empower is complete. Ms. Klassen confirmed the extension period will last until June 30, 2023 and there are other built-in extensions in the agreement as well. She also confirmed the fees will remain the same after the transition.

Following up, Trustee Wada asked if the reduction in the basis points considers the possible projection of an increasing population of the employee workforce retiring, potentially meaning less contributions and more disbursements for the Plan. Or, if there is going to be a point where the basis points will need to increase because the Plan account will be smaller. Ms. Klassen explained the modeling used for the pricing structure is projected over the next 10 years and reassured that the Plan continues to grow. Mr. Malmud reinforced this statement saying the local team has many active ongoing campaigns to educate participants about their different options and the benefits of remaining in the Plan.

There were no further questions from the Board.

A motion was made by Trustee Young and seconded by Trustee Wada to accept Prudential's offer to lower the TPA Administrative Fees to 8.5 basis points. The motion passed unanimously.

Agenda Item # 6: Discussion and Consideration on Anticipated Changes to the Vanguard Institutional Target Retirement Funds, and Potential Action Thereon

Mr. Chaikin discussed the change to the Vanguard Target Date Series. This change affects how Vanguard is offering the Target Date Retirement Series and not how the investments are managed. In February 2022, Vanguard will be combining the Institutional Target Retirement Series with the Target Retirement Funds. Fees will be reduced for participants from 9 bps to 8 bps. At the same time, Vanguard will be lowering the investment minimum for their Target Retirement Trusts II from $250 million to $100 million and the fees will be 7.5 bps. As a part of the commingled series, there is an option to add an Income and Growth Trust. The Island $avings Plan had $189 million in assets in the Vanguard Institutional Target Retirement Funds as of June 30, 2021 which now makes the Plan eligible for the Target Retirement Trusts. The Board has the option to:

1. Do nothing and the current Target Date Funds will merge with the Target Retirement Funds in February 2022 and the fees will reduce from 9 bps to 8 bps. This will be a fund change and Prudential will need to facilitate the fund change.

2. Move to Vanguard Target Retirement Trust II. Investment fees will be reduced from 9 bps to 7.5 bps and Prudential will need to facilitate the

fund change. However, because of the nature of the Trust, additional paperwork will need to be completed between Vanguard and Island $avings Plan.

Trustee Young asked for further explanation on the difference between the commingled trust arrangement and the current structure. Mr. Chaikin explained that the underlying investment implementation is the same for both funds. The big difference is the 40-Act mutual funds, which the Plan is in now, is a publicly traded vehicle and the commingled funds are not. From a participant perspective, they will not be able to go online and find the exact fund that is being offered in the Plan. The only information available would be what is provided to the participants.

Ms. Klassen pointed out some timelines to get agreements in place if the Board decides to move to the Vanguard Collective Investment Trusts (CITs). Mr. Chaikin added that the purpose for today's discussion is to potentially avoid two transitions occurring if the Board considers the change to the Vanguard CITs at a later date and the contractual agreements for the change have not been executed prior to the merge by Vanguard from the Institutional Target Retirement to the Target Retirement retail series in February 2022.

Chairperson Rapoza commented that the target funds are focused on the participants that are more hands off in their retirement funds. So, a concern of his is the level of information on the CITs and how much the participants would want to know about what is going on with their target funds. Mr. Malmud confirmed that the inquiries are few and most participants are choosing a target fund based on age and have not questioned the details of the investments in the target funds. Mr. Chaikin also added that there are other commingled investments in the Plan already.

Trustee Young questioned if there was any difference in the relative performance of how Vanguard manages the underlying allocation between the mutual fund and commingled funds. Mr. Chaikin explained that CITs are used for implementation of the commingled fund that may equate to a basis point of performance divergence, but it is not a meaningful difference. They are the exact same asset classes being utilized in the 40-Act mutual funds.

Chairperson Rapoza inquired what the timeline for implementation would be if the Board were to choose on Option 2. Ms. Klassen responded that all the preparation with Vanguard and participants for the implementation should preferably be completed by year end, but no later than January 2022.

A motion was made by Trustee Young and seconded by Trustee Wada to transition from the Vanguard Institutional Target Retirement Funds to a Collective Investment Trust Structure, known as the Vanguard Target Retirement Trusts II, as offered by Vanguard, and will transition as administratively feasible. The Vanguard Target Retirement Trusts II will

have a 7.5 basis points expense ratio. Prudential will make the necessary administrative changes on their platform and prepare the necessary communications to reflect the fund changes with the preference it be done prior to the end of the calendar year. The motion passed unanimously.

Agenda
Item # 7: Plan Administrator's Report on the Virtual Benefits Fair, including but not limited to:

a. Post Virtual Benefits Fair Summary Updates

Ms. Baran summarized the events and feedback of the 2021 Virtual Benefits Fair. She noted that there was less in attendance compared to 2020, but this was attributed to less participants working remotely when restrictions eased and attending numerous virtual meetings or "Zoom Fatigue". Participants had access to tools and resources, were able to act on their Plan, and set up virtual one-on-one appointments with the Prudential counselors. Ms. Baran concluded with the results of the feedback from attendees. Most attendees were participants, many of which acted on their Plan. The resounding sentiments were the attendees would like to see more virtual fairs in the future and the push for a Roth option. Mr. Malmud commented that the Island $avings Plan is one of only two Plans to receive 8 NAGDCA awards in 8 years, since the transition to Prudential, and it is a great accomplishment for the Plan and participants.

Chairperson Rapoza questioned if there are different strategies to attract more attendees in case the Benefits Fair needs to remain a virtual event for the next couple years. Ms. Baran replied there are new products being introduced and new philosophies available to offer education in a virtual setting as people are learning and adapting to remote working. Mr. Malmud continued by stating the amount of individual virtual consultations remains consistent with the number of in-person consultations that occurred pre-pandemic. Additionally, with the multiple important topics to discuss during past Board meetings, Prudential has forgone the Board reports they usually provide. However, there are many campaigns and initiatives that are happening to improve relationships and communication for participants.

Trustee Young stepped away from the meeting briefly at 10:08 a.m. and returned at 10:13 a.m.

There were no further questions from the Board.

Agenda
Item # 8: Review and Consideration on Proposed Amendments to Chapter 88E, Hawaii Administrative Rules, and Potential Action Thereon

Ms. Akiyoshi summarized the events and developments that occurred leading up to the preparation of the draft Administrative Rules:

- Developing and submitting statutory changes to add enabling language on the addition of a Roth option.
- The Board voting to add the Roth option to the Plan at the August 2019 meeting.
- Reported highlights of the proposed Roth provisions being considered at the February 2020 meeting.
- When the pandemic occurred in 2020, the Board voted to allow in-service distributions under the CARES Act at the April 2020 meeting.
- Reported at the August 2020 meeting on the additional guidance issued by the IRS which needed to be covered in the Administrative Rules/
- Reported at the December 2020 meeting on the expanded guidance issued by the IRS that also needed to be addressed in the Administrative Rules.

She presented the proposed changes to the Administrative Rules to the Board. They included the in-service distributions from the Plan under the CARES Act, IRS guidance related to the CARES and SECURE Acts, EGTRRA (Economic Growth and Tax Reconciliation Relief Act of 2001) provisions, enabling language to add a Roth option to the Plan, and past and recent housekeeping changes.

Board members discussed including language that will allow all employees to make Roth deferrals and whether a jurisdiction could elect not to offer the Roth option or whether they must make it available for all employees. Trustee Young questioned if the State and counties are prepared to offer a post-tax arrangement on their payroll systems. Ms. Akiyoshi confirmed with State's central payroll that there is no concern in adding this deduction. With respect to the counties, most are in preparation of incorporating the change into their system, but there is one county that has concerns about being able to offer the deductions. Board members debated if the Plan would mandate the counties to offer the Roth post-tax deductions or allow counties the flexibility to elect not to offer the Roth option. After much deliberation the direction of the Board pointed towards including the language in the Rule Amendments to allow all participants the Roth option and allow counties the flexibility to offer the Roth option.

Board members discussed the addition of language that will allow in-Plan rollover contributions to and from a Roth account and the tax implications that may occur. Ms. Akiyoshi expressed a concern that the proposed language may not be adequate to cover different potential scenarios and questioned if the provisions for in-Plan rollovers should be added later. Mr. Luciani reassured there are many State plans that offer a Roth option and clarified the difference between Plan rollovers and conversions. Ms. Carter questioned on the activation of the rules, if the amendment can be included in the rules in anticipation for future use, but not activated until further clarification. Mr. Nishiyama answered that if the amendment is in the Rules than it is permissible. Discussion on this amendment was suspended due to Trustee Wada and Trustee Matsuyama needing to step away. Ms. Akiyoshi moved on to the next amendments and the proposed timeline.

When Trustee Wada and Trustee Matsuyama returned, discussions on allowing in-Plan rollovers resumed. After much deliberation, the Board members decided to include the language to allow the in-Plan rollovers.

Trustee Wada and Trustee Matsuyama stepped away from the meeting briefly at 11:17 a.m. and 11:18 a.m. respectively. They returned at 11:30 a.m. and 11:35 a.m. respectively.

There were no further questions from the Board.

A motion was made by Trustee Wada and seconded by Trustee Kitamura to accept the proposed amendments, as presented. The motion passed unanimously.

Agenda Item #9: 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 or the Period Ending June 30, 2021

   Ms. Akiyoshi reviewed the Quarterly Plan Asset Report for the Board members.

There were no questions from the Board.

A motion was made by Trustee Wada and seconded by Trustee Larsen to accept the report on funds not deposited in the State/County Treasuries for the period ending June 30, 2021. The motion passed unanimously.

b. Quarterly Management Report for Period Ending June 30, 2021

   The Quarterly Management Report was provided to the Board members for their review.

c. Notification of New Interest Rate for the PTS Plan, Effective October 1, 2021

   Ms. Akiyoshi reported that the New Interest Rate for the PTS Plan is 2.07%. This rate is slightly down from the third quarter at 2.11%.

d. Status on the Independent Plan Audit for the PTS Plan

   Ms. Akiyoshi reported that the Board voted to conduct an Independent Plan Audit for the PTS Plan at the March 5, 2021 Board Meeting. The Audit is in progress and the auditor is collecting information from the selected pool of departments and agencies, including the Department of Accounting and General Services (DAGS). If the report is completed before the next Board Meeting, then Life Insurance Company of the Southwest will be prepared to report on the audit.

There were no questions from the Board.

Agenda
Item #11: Other Business/Announcements

a. NAGDCA Annual 2021 Virtual Conference

Ms. Akiyoshi reported to the Board that the Island $avings Plan received an award from NAGDCA in the COVID-19 Response category for the first Virtual Benefits Fair held in 2020.

Chairperson Rapoza thanked everyone for their participation in today’s virtual meeting. He adjourned the meeting at 11:46 a.m.

(NOTE: Signed copy on file.)