STATE OF HAWAII

DEFERRED COMPENSATION PLAN
BOARD OF TRUSTEES

OPEN SESSION MINUTES
MEETING # 443

Date: March 4, 2022

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
Roderick Becker, 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
Kevin Malmud, 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
Rob Luciani, Prudential Retirement
Jim Schauer, Prudential Retirement
Barton Jefferys, Prudential Retirement
Jeanie Kanai, Plan Administrator Staff (Prudential)/Honolulu Office
Daniel Morrison, Empower

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 Introductions

Chairperson Rapoza welcomed everyone and proceeded with the introductions of the Board members, Board staff, and other guest attendees. He reviewed some housekeeping items.

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. 442 for the December 14, 2021, meeting

Chairperson Rapoza explained that there is a correction in the minutes for the December 14, 2021, meeting. On page 7, under agenda item No. 7, a part of the motion was inadvertently missed and should have read, "To accept the PTS Plan Audit Report for the Plan year ending December 31, 2020, and to approve National Life Group to resolve the $539 amount, under the contributions receivable in the PTS Plan's Statement of Net Assets Report, via the Plan's Reimbursement Expense Account". Only the second half of the motion was captured.

There were no questions from the Board.

A motion was made by Trustee Young and seconded by Trustee Wada to approve Minutes No. 442, with the corrections as noted. The motion passed unanimously.

Agenda
Item # 4: Overview by Empower on the Acquisition of Prudential Retirement and Anticipated Plans for Transition of the Island $avings Plan to Empower

Chairperson Rapoza remarked that at the October 26, 2021, Board meeting, Prudential informed the Board members that there was an agreement with Empower to acquire Prudential's full-service retirement business. Since Prudential reported the transaction is anticipated to close in the First Quarter 2022, Empower was asked to provide an update on the transition.

Mr. Morrison, the Senior Vice President of Empower, was present to provide the Board with updates from Empower. His update included introducing Empower, giving a brief update on the agreement with Prudential, and what can be expected as the acquisition is being finalized and after its closure.

First, he introduced Empower as an organization with a core business of record keeping, administration, and education. After the closure with Prudential, Empower will have about twelve thousand associates across the country serving nearly sixteen million plan participants. Mr. Morrison explained that he's responsible for Empowers' government business and there are several hundred associates whose focus is determining how to best serve their public plan participants. Empower has been serving government plans for sixty years. With the acquisition of Prudential, Empower will have over $210 billion in public plan assets serving about four million participants.

Mr. Morrison explained the details about the acquisition of Prudential:

- In July 2021, Empower entered into a definitive agreement to purchase Prudential's retirement business.
- Since entering the agreement, Empower and Prudential have been working together on the acquisition, but they are still competitors and for antitrust reasons, there are certain things they haven't been able to interact on. However, collaboration between the two companies and regulators has gone smoothly and soon all the appropriate regulatory approvals needed to close the acquisition will be received.
- Empower will honor all the terms and conditions and any negotiations that Prudential has with the State of Hawaii. He also stated that to be successful in bringing two organizations together, it is important to bring the individuals who have relationships with Prudential and the Plan over to Empower as well.
- Empower has extended offers to Prudential associates working on the Plan to transition over to Empower with the acquisition. In doing so, the local office team that Plan participants are familiar with will continue to manage the Plan under Empower. Between now and the closing of the acquisition, it is expected to be business as usual as it has been working with Prudential. Post close, there will be very few changes. Business will continue to operate as usual with the local team, participants will continue to use the same websites and call center numbers. The only noticeable changes participants can expect immediately following close is the branding that will change to Empower.
- Upon closure, Empower is able to divulge the details of the transition currently withheld due to antitrust reasons.
- There will be several weeks of working with all the Empower teams and all the data to create a timeline of when it is expected for the Plan to migrate to the Empower recordkeeping system. Discussions are expected to be held in early summer between Empower, the Board, and Segal about the details of the migration to the Empower platform.
- The migration itself is estimated to be in 2023, over a weekend so participants will not be blacked-out or out of.
- After the migration, there will be a new website and technologies available to participants.

Chairperson Rapoza questioned how the transition will be communicated to the participants, how the communication will be distributed, what form it will be in, and the estimated timing after the transition. Mr. Morrison stated that between now and close, Prudential will be sending out the communications. Following close, the websites will be updated with notices throughout the site, statements will also be produced, and emails and/or hardcopies of the transaction will be sent to individual Plan participants. Ms. Klassen confirmed that initial communication to participants in the form of a post card was finalized and will be mailed to Plan participants in the following week. Also, an earlier communication, required by FINRA (Financial Industry Regulatory Authority), was sent out in February to the Plan participants who have self-directed brokerage accounts. Chairperson Rapoza asked to confirm that the Island $avings Plan website and other tools that were customized to the Plan are expected to be maintained to which Mr. Morrison confirmed that the same level of customization will be carried over to the new experience.

Trustee Wada questioned if the logins and passwords for participants accounts will be transitioned over, or will participants be required to register again. Mr. Morrison stated that immediately after close, there will be no changes to the experience, so the website and the account logins will remain the same. As it gets closer to the migration, with participants accessing the new Empower website for the first time, there will be an updated multi-factor identification process that participants will have to go through which will be communicated beforehand.

There were no other questions from the Board.

Agenda Item # 5: Plan Administrator's Report

a. Plan Highlights for the Fourth Quarter 2021.

Ms. Klassen presented on the Plan Administrator's Report where she focused on the plan level updates, plan activities updates, and key plan data.

- The Vanguard Institutional Target Retirement funds moved to the Vanguard Target Retirement Trust II (CIT) option on January 18, 2022. The funds that were moved to the CIT option were available on January 19, 2022.
- The Vanguard Target Retirement 2015 Fund will be merged to the Vanguard Target Retirement Income Fund on July 8, 2022. In mid-April, detailed outline of communications is expected to be shared with Board staff and participants.
    - Mr. Chaikin commented that the Vanguard Target Date Series has a 7-year landing point. Once the fund hits its target date, it continues to get more conservative, shedding equity and adding fixed income until it reaches 7 years post retirement. Now it's 2022, the Target Retirement 2015 Fund is now merging into the Target Retirement Income Fund, which is expected of the glidepath. There is no action needed by the Board as this is not unusual.

- In recent discussion with senior Prudential regulatory analyst Jim Schauer, he was able to provide assistance with the Administrative Rules Amendments.
- In the Fourth Quarter 2021, there was over $26 million in contributions and $43 million in distributions leaving a net negative of $17 million in the cash flow. Ms. Klassen explained that at year end there are several actions to increase withdrawal activities, such as RMDs (Required Minimum Distributions). There were 1,924 RMD payments in the Fourth Quarter and about an equal amount in installment payments. It is also typical for many households to budget their needs at year end for the coming year. Ms. Klassen explained this was to provide context for the negative cash flow figures for Quarter Four.
- Assets at the end of last year were $3.1 billion, however due to market activity in the new year, it's at $2.98 billion.
- The global environment with Ukraine and Russia and the possibility of it expanding to other countries and regions increase the focus on participants, market volatility, and investment decisions. Over time, there is a steady increase in the use of asset allocation tools. About 23.37% of Plan assets are designated under asset allocation tools.
- Average contribution rate in dollars across all age spans is $258 and average contribution rate as a percentage across all age spans is 11.2%, which is greater compared to Prudential's book of business at 7.7%. This shows a greater commitment to the Plan from the participants to continue to contribute and a maturing workforce.

Ms. Baran presented updates on the communication and education activities for the Plan.

- The Fourth Quarter 2021 newsletter was released, and the next issue for the First Quarter 2022 will reflect the Empower branding and headlining the migration from Prudential to Empower.
- With the Vanguard changes that occurred in mid-January, there were many postings and notices on the Plan website to highlight the changes.
- A new webinar was introduced that focused on promoting the Plan to participants under the Department of Education (DOE).
- Post close, everything will be rebranded with the Empower logo, but services will remain the same.

Mr. Malmud presented on the local office updates of the report.

- Updates included the impact the pandemic had on the Plan with focus on the trends pre-covid, during the pandemic in 2020, and after the initial pandemic into 2021.
    - 2019 was one of the Plan's best years for enrollments, but it dropped significantly in 2020. In 2021, there is a gradual climb as enrollments start to increase.

  - Contribution increases for the Plan has increased since 2019 with no effect on contributions from the pandemic in 2020. There was also a significant increase in contribution from 2020 to 2021.
  - There was a significant drop in GoalMaker elections from 2019 to 2020, but there has also been significant increase in these elections from 2020 to 2021, with elections in 2021 close to what it was in 2019.
  - There was a slight drop in the number of rollovers into the Plan from 2019 to 2020, but it has since risen back to pre-covid levels in 2021.
  - Like contribution increases, the total amount of assets rolled into the Plan has only increased since 2019. There was a slight increase from 2019 to 2020 then a larger increase from 2020 to 2021.
- Mr. Malmud reviewed the initiatives of the local office.
  - This included the launch of quarterly calling campaigns focusing on the following areas:
    - In the First Quarter 2022, the focus was on reaching out to recently retired participants to discuss the benefits of remaining in the Plan.
    - For the Second Quarter 2022, the focus will shift to participants who are still active and nearing retirement to discuss the benefits of the Plan and establish a relationship prior to their consideration of distribution options upon retirement. This is the first of three new programs.
    - The Third Quarter 2022 will focus on reaching out to active participants who are not contributing to discuss the advantages of restarting their contributions and strategies that will all help them in doing so.
    - Fourth Quarter 2022 will focus on reaching out to participants who are self-directing via the core fud line up or brokerage window to review the various asset allocation programs available in the Plan.
  - In addition, it also includes the expansion of webinar offerings to key areas:
    - There will be a webinar series from March 15 to March 17, 2022, for the DOE.
    - A new webinar rolled out on February 9, 2022, for the University of Hawaii that focused on the benefits of the Plan compared to the available 403(b) plan offered to those eligible participants.
    - Additional webinars are being planned for key unions including the HGEA and UPW.

Mr. Malmud concluded the Plan Administrator’s Report with a couple testimonies from Plan participants.

b. Update on the Transition from the Vanguard Institutional Target Retirement Funds to the Vanguard Target Retirement Trust II options.

Ms. Klassen previously commented on this Vanguard update in the Plan Administrator's Report. The Vanguard Institutional Target Retirement funds moved to the Vanguard Target Retirement Trust II (CIT) option on January 18, 2022, and the funds were available the next day.

There were no questions from the Board.

Agenda Item # 6: Performance Evaluation Performance Report for the Fourth Quarter 2021 by Segal Marco Advisors

Mr. Chaikin reviewed the Fourth Quarter Performance Evaluation Performance Report for the Board.

- Proposal for "SECURE 2.0" began even before the December 2019 enactment of the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) and it is still in the works.
- Still awaiting movement on retirement plan legislation, but with the current situation in Ukraine it is understandable that Washington has other priorities.
- Trump administration had green lighted the inclusion of private market investments in DC plans. The Biden administration has instituted a question period to gain more industry feedback. Private equity in DC plans would open the path to add defined benefit like investments into DC plans.
- Contribution limits increased in 2022 to $20,500 from $19,500 in 2021.
- S&P was up 11% during the quarter, helped by the passage of the Infrastructure and Jobs Act and more insight around the severity of the Omicron variant.
- Strong divergence in small cap equity with small cap value outperforming small cap growth by 26% last year, due to stocks like GameStop that did exceptionally well.
- International markets did recover nicely, especially in the developed world. Emerging markets equities were negative for the year driven by issues in China and less accessibility to COVID vaccines in these markets.
- After the meeting materials were submitted, there was an update from Vanguard about the Vanguard Target Retirement 2070 Fund. It was confirmed by Vanguard that this fund will be available for inclusion in July 2022 when the merge for the Vanguard Target Retirement 2015 Fund occurs. Vanguard continues to add to the vintages for younger individuals as the brackets merge. Board consideration may be required at a future meeting.
- Based on the way participants are allocated, the average investment cost is 29 basis points, which is lower compared to the general markets.
- Most of the investment options do not have any revenue sharing which is an agreement between the investment manager and the record keeper that can be used to offset administrative costs. There are some instances where it is not

used to cover the Plan administrative cost, it can be cheaper to have a share class with revenue sharing when it is returned to participants.

- The MainStay Large Cap Growth Fund has an expense ratio of 72 basis points. Currently, this fund has 25 basis points in revenue sharing that is being returned to participants. This has the effect of making this fund cost 47 basis points for participants.
- MainStay has renegotiated their agreement on the revenue sharing with Prudential that will be declining from 25 to 15 basis points. This will increase participant costs on this fund from 47 to 57 basis points, which is still ranked well below the peer group median in terms of the absolute cost.
- There have been conversations with MainStay on their comingled products that may be able to minimize the impact of the change in the revenue sharing, but there is no recommendation for any changes at this time.

Trustee Becker commented that the funds that seem to be more expensive also seem to be performing poorly. He questioned if this was something to look at for the future. Mr. Chaikin answered that certain funds have stylistic differences and longer terms, and style had been out of favor prior to the recent cycle that he has seen. However, the performance of the funds has gotten better and become much more consistent.

There were no further questions from the Board.

Agenda Item # 7: Discussion on the Change in Revenue Sharing Expense Fee for the MainStay Large Cap Growth Fund, and Potential Action Thereon on any Alternate Considerations

Mr. Chaikin had previously commented on this item in the previous agenda item. He reiterated that there is no potential action from the Board at this time.

There were no questions from the Board.

Agenda Item # 8: Status on the Proposed Amendments to Title 14, Chapters 41-44, Hawaii Administrative Rules

Ms. Akiyoshi updated the Board on the status of the proposed rule amendments. At the October 26, 2021, meeting, she presented the proposed amendments to the rules and has been working on formalizing it into the proper rules format. A letter was sent to both Segal and Prudential transmitting the preliminary proposed rule amendments on January 24, 2022, and comments were due by February 25, 2022. Ms. Akiyoshi said that she did have follow up discussions with Prudential on their comments to the rule amendments and she is in the process of reviewing the comments and edits to incorporate into the proposed rule amendments. She will be able to report on the final changes at the next Board meeting.

There were no questions from the Board.

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 for the Period Ending December 31, 2021.

Ms. Akiyoshi reviewed the Quarterly Plan Asset Report for the period ending December 31, 2021. The total combined asset balance in the PTS Plan as of December 31, 2021, totaled $139,118,602.83.

There were no questions from the Board.

b. Quarterly Management Report for Period Ending December 31, 2021.

The Quarterly Management Report was provided to the Board members for their review. Captured in the report is the $538.65 amount that was added back to the Trust from the Plan Expense Account to resolve the negative contribution that has been outstanding for several years. The Board approved the amount from the Plan Expense Account at the December 14, 2021, meeting.

A motion was made by Trustee Wada and seconded by Trustee Matsuyama to accept the Report on Funds Not Deposited in the State/County Treasuries for the period ending December 31, 2021. The motion passed unanimously.

c. LSW's Annual Letter on the Reimbursable Amount Available in the PTS Plan Expense Account for 2022.

Ms. Akiyoshi explained that LSW has prepared their annual letter on the amount available for reimbursement in the Plan's Expense Account for the 2022 calendar year. Based on the amount of premiums collected in 2021 and the $538.65 deduction, the total amount available for 2022 is $75,171.12.

There were no questions from the Board.

d. Notification of the New Interest Rates for the PTS Plan Effective January 1, 2022.

The new 2022 interest rate effective January 1 is 2.01%, which is slightly down from the Fourth Quarter 2021 rate of 2.07%.

There were no questions from the Board.

Agenda
Item # 10: Other Business/Announcements

a. 2022 Legislative Session.

i. HB 1897, Relating to the Sunshine Law on Live Stream and Online Posting.

For this year's legislative session, staff was monitoring HB 1897, amended in HD 1. The bill relates to the sunshine law and would require all Boards to live stream their meetings, archive the recordings online, allow for oral testimony after each agenda item, amends the timeframe of the posting of Board meeting minutes, and requires Board packets to be posted online 48 hours prior to written testimony deadline. Some of these requirements raised concerns because many of the administrative and logistical coordination that would be required and expanding the coordination for both pre and post meeting. The deadline for the first decking was today and the bill has not had any further movement, so it looks like the bill has died for this session. However, staff will continue to investigate the feasibility of the items being proposed in the bill.

Chairperson Rapoza asked Trustee Wada if the funding for IT support would come from DHRD. He answered that DHRD's IT issues are farm out to ETS, so there is no budget for it, and he is uncertain how DHRD would accommodate. Chairperson Rapoza commented that even if the bill does not pass this year, it's a signal to start planning. With the way technology is advancing and an increased use of online platforms for meetings, it shows a move towards providing increased access for the public to attend the meetings. Trustee Wada agreed with Chairperson Rapoza on the matter and confirmed that DHRD will continue be proactive and discuss with ETS on the feasibility and funding. Ms. Klassen commented that Prudential/Empower is also researching on how they would be able to assist staff in posting the videos of the meetings.

ii. GM 576, Regarding Consideration and Confirmation of Lance Larsen to the Board.

Governor's Message regarding the consideration and confirmation of Lance Larsen to the Board. A hearing was scheduled for February 23, testimony was submitted, and the committee recommended to advise and consent to the nomination.

iii. GM 666, Regarding Consideration on Confirmation of Kalbert Young to the Board.

Governor’s Message regarding the consideration and confirmation of Kalbert Young to the Board. A hearing was scheduled for February 23, testimony was submitted, and the committee recommended to advise and consent to the nomination.

There were no questions from the Board.

Chairperson Rapoza commented that Board staff will be scheduling the next meeting and as the State starts to open again and lifting travel restrictions, he would like to gradually start meeting in person again. He hopes that one of the upcoming meetings this year will be in person.

Chairperson Rapoza thanked everyone for their participation in today’s virtual meeting. He adjourned the meeting at 10:39 a.m.

(NOTE: Signed copy on file.)