

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

**OPEN SESSION MINUTES
MEETING # 444**

Date: May 20, 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
Rodrick Becker, Ex-Officio Member (arrived at 9:35 a.m.)
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
Darlene Yamada, DHRD Staff
David Greengard, Segal Marco Advisors
Wendy Carter, Segal Marco Advisors
Melanie Walker, Segal Marco Advisors
Kevin Malmud, Plan Administrator Staff (Empower)/Honolulu Office
Julie Klassen, Empower
Carol Blumenthal, Empower
Deborah Baran, Empower
Tim Grove, Empower

Call to Order: There being a quorum present, Chairperson Kalei Rapoza called the meeting to order at 9:02 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.

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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.

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Item # 3: Approval of Minutes No. 443 for the March 4, 2022, meeting

There were no comments or changes from the Board.

A motion was made by Trustee Young and seconded by Trustee Wada to approve Minutes No. 443, as presented. The motion passed unanimously.

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Item #4: Approval of Payment to DHRD for the Two Special Funded Positions for FY 2023

Ms. Akiyoshi stated the bill for collection of \$239,561.00 is for the two positions that provide administrative support to the Board and Plan for the Fiscal Year 2023. She explained the funding request was calculated using the 2020 salary schedule and includes fringe benefits costs for Fiscal Year 2023 to 2027. She clarified that the 2020 salary schedule was used to calculate the funding amount because the new 2022 salary schedule is not yet available. An additional funding request will be requested by DHRD to cover the difference between the 2020 and 2022 salary schedules when the new 2022 salary schedule is made available. Ms. Akiyoshi asked the Board if they would be willing to approve the additional funding amount at this time and authorize Chairperson Rapoza to approve the subsequent bill of collection to cover the shortfall. The request is funded by the assets of the Plan and the funds are needed by June 30, 2022. Any excess amounts not used by the end of the 2023 fiscal year will be returned to the Plan.

Trustee Young questioned if she had an estimate of how much the difference will be for the additional funding request. Ms. Akiyoshi said she did not have an estimate and Trustee Wada added that until the legislature and all the legislative bodies approve the collective bargaining agreements, there will be no disclosure of the changes of said agreements. Ms. Akiyoshi further explained that the additional amount is for the new 2022 salary schedule, effective July 1, 2022, and other pay adjustments that occurred in the Fiscal Year 2021.

A motion was made by Trustee Young and seconded by Trustee Matsuyama to approve the total amount of \$239,561.00 and authorize the Chairperson to

approve the bill for collection from DHRD for future adjustments as a result of collective bargaining negotiated increases with a cap not to exceed a total aggregate amount of \$275,000.00 for the Fiscal Year 2023.

Trustee Wada informed the Board that he will abstain from voting on this item as he is a part of the receiving agency.

Chairperson Kalei informed the Board that this is an annual transaction that needs approval from the Board to transfer the funds to DHRD for compensation to cover the services provided by the Board staff. Trustee Matsuyama wanted clarification that any excess funds will be returned to the Plan, which Ms. Akiyoshi confirmed that excess funds are returned to the Plan at the end of the fiscal year.

The motion passed with five trustees, and one vote by Trustee Wada to abstain.

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Item # 5: Plan Administrator's Report, including but not limited to:

a. Plan Highlights for the First Quarter 2022

Ms. Klassen presented on the Plan Administrator's Report where she focused on the Plan Level Updates, Plan Activities, and Key Plan Data.

- The sale transaction of Prudential Retirement to Empower was completed on April 1, 2022.
 - Empower has seen organic growth in the number of participant records kept from an estimated 16 million to the current 17 million, not including the records acquired from Prudential.
 - Empower will honor the terms, products, fees, and services of the heritage Prudential agreements.
 - Rebranding of the Empower logo has appeared in the various Plan channels.
 - The Prudential name is still visible on some participant materials. The Transaction Disclosure "bridge" document explains the visibility of the Prudential name will continue until the Plan officially migrates to the Empower platform.
 - Details of the migration wave to the Empower platform is estimated to be announced in July or August.
- Fund house directed merger of the Vanguard Target Retirement 2015 Trust II to the Vanguard Retirement Income Trust II will occur around July 8, 2022. Participants should expect communications on this merger in June 2022.
- Utilization of asset allocation tools and services has helped participants diversify their portfolios.

- Plan assets as of the First Quarter end exceeds \$3 billion with most of the assets in the Stable Value Fund.

Trustee Becker joined the meeting at 9:35 a.m.

Mr. Malmud presented the Local Office Updates of the report.

- Updates include the measure of enrollments, contribution increases, and number of rollovers into the Plan for the First Quarter 2022.
- The local office has a meeting with DAGS HIPAY and Board staff to discuss an effective way to resolve issues like ineligible contributions, recalls, and department transfers.
- Reaching out to participants from two different unions that are retiring and expecting lump sum payouts.
 - Encouraging those participants to defer the monies to the Plan to avoid paying the up-front taxes by using the one-time special lump sum contribution method.
 - The local office has been receiving an increase in calls about the market declines in recent weeks.
 - Recommend participants stay the course and remind them investments are long term.
 - Trustee Matsuyama asked which group of participants are calling the local office about the market and Mr. Malmud stated most of the calls are from the retired participants.

Trustee Larsen noticed the local team was tracking contribution increases but questioned if contribution decreases were also being tracked. He also asked if the team is monitoring participants who seem to be timing the market and what type of counseling is provided to them. Mr. Malmud answered that they are not currently tracking contribution decreases, but it is something they could investigate and report on. In counseling sessions, it is reiterated to participants to purchase stocks and increase contributions during a bear market.

Ms. Blumenthal reported on past accomplishments of the Plan and current projects.

- The Empower team is continuously working with State personnel to streamline payroll administration. A few of the past accomplishments include:
 - Empower received New Timesheets and Leave Requests files and tested them to ensure the programming was running smoothly and transmitting correct information to ensure there have not been any missing contributions or missing demographic information.
 - Worked with Waialae Charter School to change their File Transmission Method to the enhanced Sponsor Center Website to

- log their contributions and provided a template for easier entry of required fields.
- Worked with The County of Hawaii Department of Water Supply (DWS) to change their File Transmission Method by eliminating redundant steps and simplifying the submission process, changed their transmittal method from wire to ACH debit to avoid DWS having to pay fees and to increase efficiency, and provided training to State personnel on updating status and address changes in the files and submitting supplemental files when needed.
- The University of Hawaii (UH) introduced new Department ID Codes to their system which resulted in over 600 employees being dropped from both the Eligibility and Demographic File that is transmitted between UH and Empower. Empower updated the programming to include new ID codes and remove dashes from zip code field.
- Empower team is working with the County of Kauai and is in the process of converting to Workday. The files being submitted are changing from custom records to a standard record layout and Empower is testing the files for errors and providing feedback.
- Empower worked with the County of Hawaii to upload and update the information for terminated employees on the Sponsor Center Website, and update census information for participating employees.
- Empower sends out yearly reminder to the counties to audit the contribution rates.

There were no questions from the Board.

b. Updates on Empower's Post Acquisition Activities

Ms. Klassen previously reviewed Empower's Post Acquisition Activities when she presented her part of the Plan Administrator's Report.

There were no questions from the Board.

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Item # 6:

Performance Evaluation Performance Report for the First Quarter 2022 by Segal Marco Advisors

Ms. Walker updated the Board on Legislative, Regulatory, and Litigation updates.

- For ERISA plans, the legislation sets up a Savings Lost Account Program where Plans can send information about lost participants that they can't find to make the required distributions. This program is currently for ERISA plans and does not include public plans, but there are many public plans that are interested in being include in this program.

- The legislation is proposing to change the IRS correction program by allowing public plans to correct inadvertent errors using the self-correction procedures instead of the voluntary correction procedures that require filing and fees with the IRS.
- New proposed regulations on Required Minimum Distributions (RMDs) increases the distribution age to 72 and limits the distribution period to certain types of beneficiaries to five years. There are also new mortality tables for determining RMDs from defined contribution accounts. Since people are living longer, RMDs will be a smaller amount beginning 2022.

Ms. Walker informed the Board that there was a Supreme Court decision on a case involving Northwestern University. The plaintiffs argued that the plan investment options were not diverse and some of the options were not prudent options based on fiduciary rules by ERISA. Northwestern argued that if they provided prudent investment options to select from, they could also have options that were not prudent. The Supreme Court disagreed and said that all options need to be prudent investment options and meet the best standards the plan has to offer their participants. Ms. Carter assured that these types of litigations have not appeared in public sector plans, but it is something for plans to be aware of.

Mr. Greengard reviewed the Quarterly Highlights for the Board.

- At the end of the First Quarter 2022, GDP fell to negative 1.4%. This is the weakest quarter since Spring 2020 at the start of the pandemic. A wider trade deficit and a slowdown in inventory investment by businesses were the main drivers for this negative GDP.
- The S&P 500 was down negative 4.6% during the first quarter. Small cap stocks underperformed large cap while small growth companies declined the most.
- The Federal Reserve is raising interest rates. There was 25 basis points increase in March and a 50 basis points increase in May and several more increases expected in the coming years. What is going to happen is yields will go up and bottom prices will go down.

Mr. Greengard reviewed the Investment Highlights of the report. He explained to the Board how each fund was doing. If the fund underperformed, outperformed, or met its benchmark. If the fund underperformed, he explained the reasons for it and possible factors to consider. He stated that there were only two active funds that performed under the median rank of available funds in the universe and the rest are doing well in the long term.

Trustee Larsen questioned if there are any funds on Segal's radar that the Board should be concerned about. Mr. Greengard reassured that over the long term, most of the Plan's funds are doing well. The only two that are struggling in the long

term is the American Funds AMCAP and Wellington Research Value funds. He assured that he will continue to investigate and monitor these funds.

Chairperson Rapoza inquired how long these funds should be monitored until the Board might want to consider changing these funds. Mr. Greengard explained that the first thing he does is research these funds and determine the purpose they were added to the Plan. If these funds are no longer serving their purpose for the Plan, then consideration on changing funds is taken.

There were no further questions from the Board.

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Item # 7:

Discussion on the Addition of a Vanguard Target Retirement Trust II 2070 Fund, and Potential Action Thereon

Mr. Greengard discussed that he believes it is prudent to add the Vanguard Target Retirement Trust II 2070 Fund to the Plan. By adding this fund, the Plan would have the entire suite of Vanguard CIT funds for participants to select from by increasing the age demographic the funds cater to.

Trustee Wada wanted to confirm that by adding this fund to the Plan, there would be a wider scope available. Chairperson Rapoza confirmed that the Plan currently has the 2015 through 2065 Vanguard funds, with the 2015 fund to merge soon, and adding the 2070 fund would include another milestone. Trustee Young questioned the practicality of adding this 2070 fund to the Plan stating it will be another 48 years until this fund matures and wondered if there are any State employees who will continue employment for this timeframe. Mr. Greengard understood Trustee Young's concerns and stated it is advantageous to the Plan to provide complete set of options to the participants and deferred the question to Empower on the current demographic of State employees that is eligible for the 2070 fund or if the 2065 would suffice. Ms. Klassen agreed the maturity date is distant, but the fund would provide an aggressive allocation strategy for the participants enrolled. Adding the fund to the Plan would also keep the number of vintages in the Plan constant.

A motion was made by Trustee Larsen and seconded by Trustee Young to accept the recommendation from Segal to add the Vanguard Target Retirement Trust II 2070 Vintage to the Vanguard Target Retirement Trust II Series when it becomes available in July 2022. The motion passed unanimously.

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Item # 8:

Discussion on the Changes to the Prudential Wrapped Portion of the Stable Value Fund Contract

Mr. Greengard stated that Segal is comfortable with Empower's proposal for the Wrapped Portion of the Stable Value Fund Contract. Interviews with Empower and Invesco were conducted, and questions were asked about how the Wrap is currently administered and if any changes were going to happen to the Wrapped Portion. Segal was assured that nothing will change, and the Wrap will follow the Investment Managers Agreement with Jennison.

Mr. Grove further explained the original intention of the Wrap will remain the same. During the initial planning stages, a key component in finding a partner for the Wrap was continuity of participant experience. The Stable Value Fund will remain at 50/50 allocation. There are two parts, one is the investment management with Jennison Associates, and the second is the book value guarantee on top of the investments. What is happening is the wrap provider is being reinsured with Great West instead of Prudential Retirement who originally issued the contract and Empower will be the administrator of the Wrap contract. Mr. Grove does not anticipate any changes to the underlying Wrap Agreement and business should continue as usual.

There were no questions from the Board.

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Item #9:

Review and Consideration on the Proposed Amendments to Title 14, Chapters 41-44, Hawaii Administrative Rules, and Potential Action Thereon

Ms. Akiyoshi provided a status on the proposed amendments to the Administrative Rules.

- After the October 2020 Board meeting, the Proposed Rule Amendments was sent to Segal and Prudential, now Empower, for edits and comments.
- Since then, additional amendments have been made which include:
 - Substituting certain words or phrases in the Rule Amendments for clarity and consistency.
 - Addition of paragraphs to certain sections to provide clarity.
- Trustee Becker raised concerns about what the process will be to handle a group of employees not being able to have access to make Roth contributions and whether to give the employers full control in deciding in whether to provide the Roth contributions option to participants. Trustee Young suggested possibly incorporating into the Rules that the respective employer jurisdiction would be responsible for determining whether they are not able to offer the Roth contributions.
- Ms. Akiyoshi also updated the Proposed Timeline for the addition of the Roth and noted to the Board that the target rollout of the implementation remains at Calendar Year 2024.

There were no further questions from the Board.

A motion was made by Trustee Matsuyama and seconded by Trustee Wada to accept the proposed amendments, as presented, with the noted additional changes. The motion passed unanimously.

Chairperson Rapoza asked the Trustees to be involved as much as possible, in their respective capacities, when the Rule Amendments are distributed to the stakeholders. This will help expedite the process of getting the Administrative Rules through the layers of consultations and approvals.

Agenda

Item # 10: 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 March 31, 2022

Ms. Akiyoshi reviewed the Quarterly Plan Asset Report for the Board members for the period ending March 31, 2022. The total combined asset balance in the PTS Plan as of March 31, 2022, totaled \$139,912,419.82.

There were no questions from the Board.

- b. Quarterly Management Report for Period Ending March 31, 2022

The Quarterly Management Report was provided to the Board members for their review. This report included the payable for the negative contribution back to the Plan through the Plan Expense Account.

A motion was made by Trustee Larsen and seconded by Trustee Matsuyama to accept the Report on Funds not Deposited in the State/County Treasuries for the period ending March 31, 2022. The motion passed unanimously.

- c. Annual Management Report for Plan Year Ending December 31, 2021

The Annual Management Report was provided to the Board members for their review. Ms. Akiyoshi confirmed the report has been reviewed and the information is consistent with the information of the corresponding 2021 Quarterly Reports.

There were no questions from the Board.

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

The New Interest Rate for the PTS Plan Effective April 1, 2022 is 2.00%. Ms. Akiyoshi mentioned that LSW decided to decrease their spread from 195 basis

points to 194 basis points for the Second Quarter 2022 so that the interest rate would remain at 2.00% and not drop below 2.00%.

There were no questions from the Board.

Agenda

Item # 11: Other Business/Announcements

a. 2022 Legislative Session

Ms. Akiyoshi reviewed a few Legislative Bills that have moved on to the Governor for approval.

- SB 3172, SD1, HD2, CD1, Relating to Public Agency Meetings.
 - Requires any electronic audio or video recordings of a meeting must be maintained as public record and posted for public viewing. A link to the recording must also be included at the beginning of the minutes with timestamps indicating the discussion of each Agenda item. This only applies if there is an electronic audio or video recording taken of the meeting.
 - If approved, the Bill will take effect October 1, 2022.

Trustee Young questioned if the choice to record the meeting is held with the Board, and only if it is recorded, does the meeting need to be preserved as stated in SB 3172. DAG Nishiyama confirmed that only if the meeting is recorded, does the recording need to comply with this Bill as there is no mandatory provision to record the meetings.

Ms. Akiyoshi explained that the configuring the recording of the meeting and posting of the recordings to the Plan website is being done with the help of Empower and DHRD IT staff.

- HB 2026, HD2, SD1, Relating to Chapter 92.
 - Adds new definitions of “Board business” and “informal gatherings” and allows Boards to prepare statements to submit to the Legislature on positions the Board takes on Legislative Bills. The Board’s position must be documented and available if it is to be submitted as testimony for Legislative Bills.
 - Allows Oral Testimony at any point during the Board meeting.
 - Board Packets must be made available to the public 48 hours before the Board meeting time.
 - If approved, this Bill will take effect upon approval.
- HB 1475, HD1, SD1, CD1, Relating to Mandatory Ethics Training.
 - Requires all Legislators and employees complete a mandatory ethics training within 90 days of taking office and every four years thereafter.

- Board members might receive notices from the Ethics Commission on completing the courses.
 - If approved, this Bill will take effect on January 1, 2023.
- Status on the Confirmation for Lance Larsen and Kalbert Young to the Board.
 - Confirmation hearings for Trustee Larsen and Trustee Young were held on May 5, 2022.

There were no questions from the Board.

b. Discussion on the 2022 Annual NAGDCA Conference and Action Thereon

Ms. Akiyoshi notified the Board that the 2022 NAGDCA Conference will be held in September. This year, the conference will be held in-person and virtually on September 18 – 21, 2022 in Baltimore, Maryland. The agenda for the conference has been provided to the Board and as more information becomes available, it will be distributed to the Board. She asked the Board to inform her if they would like to attend conference, in-person or virtually, as registration is needed.

Chairperson Rapoza commented that having attended a past NAGDCA conference, it is a good professional development opportunity for the trustees and that knowledge helps to serve the Plan participants better.

A motion was made by Trustee Wada and seconded by Trustee Young to authorize travel for interested Board Members and Board Staff Members to attend the NAGDCA 2022 Annual Conference scheduled for September 18 – 21, 2022 in Baltimore.

Discussion: In response to Trustee Young's question on whether with respect to the sunshine law if there is a limit to the number of Board members that would be permitted to attend a conference, DAG Nishiyama confirmed that attendance would not be limited because the Board members would be attending in an individual capacity and will not be conducting any board business.

The motion passed unanimously.

Ms. Akiyoshi had one additional announcement. She notified the Board that the upcoming pay date is on June 20, 2022 and falls on a Monday but it is also the observance day for Juneteenth. Although the State will be working on June 20, 2022, the New York Stock Exchange and First Hawaiian Bank will be closed in observance of Juneteenth. So, posting of the June 20, 2022, contributions will take place on the next business day of June 21, 2022.

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Chairperson Rapoza announced that Ms. Akiyoshi will be retiring in the coming summer months after having provided support to the Board for almost twenty years and recognized her service to the Board. Members of the Board, Empower, and Segal also provided comments on the working relationship over the years.

Chairperson Rapoza thanked everyone for their participation in today's virtual meeting. He adjourned the meeting at 11:29 a.m.

(NOTE: Signed copy on file.)