

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

**OPEN SESSION MINUTES  
MEETING # 411**

Date: May 5, 2017

Place: Department of Human Resources Development  
14<sup>th</sup> Floor Merit Appeals Board Conference Room  
235 South Beretania Street, State Office Tower  
Honolulu, HI 96813

Present: Brian Moto, Chairperson  
James Nishimoto, Ex-Officio Member  
Wesley Machida, Ex-Officio Member (arrived at 9:49 a.m.)  
Roderick Becker, Employee Member  
Kanoë Margol, Employee Member  
Kenneth Villabrille, Employee Member  
Kalei Rapoza, Employee Member

Others: Jay Paige, Deputy Attorney General  
Cynthia Akiyoshi, DHRD Staff  
Glenn Ezard, Segal Marco Advisors  
Charlene Dong, Segal Marco Advisors – via conference call  
Julie Klassen and Carol Blumenthal, Prudential Retirement – via conference call

Absent: Rodney Tam, Deputy Attorney General

Call to Order: There being a quorum present, Chairperson Brian Moto 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.

Chairperson Moto welcomed everyone and noted that all trustees were present, except for Trustee Machida who will be arriving later. He introduced DAG Jay Paige who joined today's meeting in replace of DAG Tam who is not able to attend the meeting due to illness. He proceeded with introductions, and stated that there were no guests from the public in attendance.

Agenda

Item # 1:      New Business

a.      Approval of Minutes Nos. 410 and 410-ES

Chairperson Moto stated that Minutes No. 410 was distributed in advance for the Board's review and is ready for the Board's action. Minutes No. 410-ES has been distributed for review. Ms. Akiyoshi noted corrections/changes by Trustee Rapoza on page 6 of Minutes No. 410 to correct the time of when Chairperson Moto called a break and when Trustee Margol was excused from a.m. to p.m. Trustee Becker provided comments to clarify a statement he made while discussing the timelines and plans, related to the target date options and the Roth feature, on the number of investment options that participants have, which can be overwhelming.

**A motion was made by Trustee Rapoza and seconded by Trustee Villabrille to accept Minutes No. 410, with the noted changes, and Minutes No. 410-ES. The motion passed unanimously.**

b.      Discussion on Scheduling an Independent Audit of the Plan

Ms. Akiyoshi stated that the last Plan audit that was conducted for the Plan was for the Plan Year ending June 30, 2014. There were earlier audits conducted for the Plan Year ending June 30, 2012 and for the Plan Year ending June 30, 2013, at the end of ING's contract year. ING secured N&K CPAs to provide the audit services for these 2 years.

The Board requested an audit for the Plan Year ending June 30, 2014, after the initial year of Prudential's administration of the Plan.

Ms. Akiyoshi asked the Board, for planning purposes, about the timing of the next Plan audit and presented two (2) options:

- For the Plan Year ending June 30, 2017, which would be three (3) years after the last Plan Year audit, or
- For the Plan Year ending June 30, 2018, which would cover Prudential's initial 5-year period under the contract.

Ms. Akiyoshi stated that plans for the audit were discussed with DAG Tam who had recommended that the Board consider conducting the audit for the Plan Year ending June 30, 2017, as the period between audits should not be too long.

Trustee Nishimoto asked whether audits must be performed on a regular, recurring schedule, and whether audits are comprehensive in nature. Ms.

Akiyoshi stated that there is no requirement on the frequency of audits, and the audits are comprehensive in nature. Trustee Nishimoto asked Trustee Margol about the frequency of the ERS' audits. Trustee Margol said the audits are conducted every fiscal year end at the ERS, and the audits are comprehensive. Trustee Nishimoto asked whether the Board would need to conduct a search for an independent auditing firm. Ms. Akiyoshi responded that under the Third Party Administrator's (TPA) contract (i.e., Prudential), the TPA would engage the services of an independent auditing firm. The prior TPA (i.e., ING) secured the local auditing company, N&K CPAs, to conduct the audit, and Prudential continued using the services of N&K CPAs for the last audit.

In response to Trustee Nishimoto's inquiry on costs to perform the audit, Ms. Akiyoshi stated that the cost of the last audit for the Plan Year ending June 30, 2014 was just over \$47,000. It was noted that Prudential has set aside in the Plan Expense Budget an account for audit services, and the remaining balance in this budget account is \$55,077, as of March 31, 2017. Prudential sets aside \$40,000 per Plan Year for audit services.

Ms. Akiyoshi added that Prudential was asked to obtain a cost estimate from N&K CPAs, and N&K CPAs provided a cost estimate in the range of \$48,000 to \$52,000. The cost depends on what changes have occurred within the Plan Year, including fund changes.

Trustee Becker asked whether it is a common practice with other Plan sponsors to have a TPA to secure the services of an audit company. Ms. Klassen responded that it is not an uncommon practice and remarked that there are other Plan sponsors who do not perform independent audits as frequently as this Plan does. It is common for Plan expense accounts to cover these services. The rule of thumb for conducting audits is between a 3- to 5-year range. Trustees Margol and Nishimoto stated that they would support an audit be conducted for the current Plan Year ending June 30, 2017.

**A motion was made by Trustee Nishimoto and seconded by Trustee Margol to have Prudential engage N&K CPAs to perform the independent audit services for the Plan Year ending June 30, 2017. The motion passed unanimously.**

Chairperson Moto moved to Agenda item #2.a.

Agenda  
Item # 2:

PTS ("Part-Time Seasonal") Plan

- a. Handling of Distributions for Part-time Employees Who are Separating from the State or County Service and Who are Subsequently Hired by the State or County on Part-time or Full-time Basis, pursuant to revisions to the PTS Plan Administrative Rules, Plan Document, and Booklet

Ms. Akiyoshi reported that DHRD continues to work on the amendments to the Administrative Rules, Plan Document, and the Plan booklet to amend the references to include participating counties. As DHRD was making the revisions to the Plan booklet, the topic of handling distributions from the PTS Plan was discussed with National Benefit Services (“NBS”) and Comprehensive Financial Planning, the subcontractors for the PTS Plan, and DAG Tam.

Ms. Akiyoshi explained that when the definition of “Employer” under section 2.1 of the PTS Plan Document and HAR Section 14-56-2 were reviewed, various scenarios were looked at when an employee terminates from part-time employment and works full-time with a participating county. In discussions with DAG Tam on the interpretation of “Employer”, it was determined that the movement from the State to a participating county (and in a reverse situation) would preclude the employee from taking a distribution since the employee would not have permanently separated from the Employer.

Prior to the amendments to the definition of Employer, the counties were treated as a separate employing jurisdiction, so distributions were permitted. Ms. Akiyoshi affirmed that under the amended definition, the participating county would not be treated any differently than an employee moving from the Executive Branch departments to the Legislative or Judicial branches. Therefore, the earliest distribution would be when the employee permanently separates from service with the State or participating county.

Ms. Akiyoshi reported that due to these discussions, the target date of May 1, 2017 that was requested by Kauai County could not be accommodated; however, the booklets should be ready for the next planned rollout of the Plan by Kauai County.

Trustee Nishimoto asked DAG Tam to contact the corporation counsel at Kauai County and see if Kauai County would have any concerns on how the Board and the Plan’s legal counsel are interpreting the policy changes and how it will be applied.

- b. Notification on New Interest Rate, Effective April 1, 2017

Ms. Akiyoshi announced that the new interest rate for the PTS Plan

effective April 1, 2017 is 2.64%, which is down by 1 basis point from the prior quarter.

Chairperson Moto moved to Agenda item #3.a., b., c., and d.

Agenda  
Item # 3:

Other Business/Announcements

a. Schedule of Upcoming Board Meetings

Ms. Akiyoshi reminded the Board about the upcoming scheduled meetings and events. The next scheduled Board meeting is on May 15, 2017, related to the RFP for the Active Core U.S. Large Cap Equity Investment option, followed by the Semi-Annual Board meeting on May 16, 2017. The Benefits Fair will be on May 17, 2017, at the University of Hawaii West Oahu campus. Ms. Akiyoshi encouraged the Board to come and participate at the Benefits Fair.

b. Registration for the 2017 NAGDCA Conference Scheduled for September 24-27, 2017, and Authorization for Interested Trustees and Board Staff to Attend the Conference

Ms. Akiyoshi announced that NAGDCA has opened registration for the upcoming 2017 Annual conference. The conference will be held on September 24 to 27, 2017, at the Wisconsin Center in Milwaukee, Wisconsin.

Chairperson Moto asked the Board to authorize interested Trustees and staff to be able to attend this year's conference.

**A motion was made by Trustee Nishimoto and seconded by Trustee Becker to authorize interested Trustees and Board staff to attend this year's NAGDCA conference.**

Discussion: Trustee Becker asked about the source for funding travel to attend the conference. Ms. Akiyoshi explained that, like the audit budget account, Prudential sets aside monies in a travel budget account, pursuant to its contract. Historically, the Board has determined that the NAGDCA conference is one of the conferences that provides opportunity for Board members to get educational information. The conference focuses on section 457 plans, and provides information on trends, as well as networking opportunities.

**The motion passed unanimously.**

c. Announcement on the Vanguard Institutional Forum in Honolulu

Ms. Akiyoshi announced that Vanguard periodically hosts educational forums in Honolulu for its clients. This year, Vanguard is sponsoring a forum to be held in Honolulu on May 25, 2017 at the Halekulani hotel. Topics include expectations from Washington and current administration, the future of participant interactions, and retirement readiness.

Chairperson Moto asked that interested Trustees let Board staff know so that the registrations can be submitted to Vanguard.

d. 2017 Legislation

i. Confirmation of Board Appointments

Ms. Akiyoshi reported that Trustee Rapoza, who was appointed on an interim basis, has been confirmed during the 2017 legislative session.

ii. Status of HB 165, HD1, SD2 (2017), Related to Public Meetings

Ms. Akiyoshi provided an update on HB 165, HD1, SD2, which the conference committee amended and passed out as a CD1. The bill was transmitted to the Governor.

In brief, the conference committee amended the measure by:

- Deleting the language related to oral testimony at meetings;
- Providing content requirements for written summaries of minutes that are posted in audio form; and
- Changing the effective date to July 1, 2018, to afford state and county boards a period of time to comply with this measure.

Ms. Akiyoshi highlighted the following aspects of the measure:

- Board packets are to be made available for public inspection, and Boards must provide notice to persons requesting notification of meetings that the board packet is available for inspection;
- Boards are not required to mail Board packets, but must be able to accommodate requests for electronic access as soon as practicable;
- Boards must post the notice on an electronic calendar on a website maintained by the State or appropriate county, and provide a copy of the notice to the office of the Lt. Governor at the time the notice is posted;
- The Board shall maintain a list of names and postal or electronic addresses of the persons who request notification, and send the

- notification no later than the time the agenda is required to be electronically posted;
- Minutes are to be made available on the Board's website within forty (40) days after the meeting;
  - Additional provisions address cancellations of meetings and the handling of disputes as to whether a notice was timely posted.

Chairperson Moto stated that for Agenda items #4 and #5, the Board will be discussing the status of the contract award for the fixed income option and the RFP for the Active Core U.S. Large Cap Equity Investment option in Executive Session, as it relates to procurement.

Agenda

Item # 4: Status on Contract Award for RFP No. DCP-16-1, For an Active Core Fixed Income Investment Option (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303)

Agenda

Item # 5: Discussion on Proposals Received for RFP No. DCP-16-2, Request For Proposals for Active U.S. Large Cap Core Equity Investment Option (in Executive Session Pursuant to HRS sections 92-5, 103D-105, and 103D-303), Including But Not Limited to:

- a. Review and Evaluation of Proposals
- b. Scheduling of Interviews with Priority-Listed Offerors

**A motion was made by Trustee Villabrille and seconded by Trustee Margol to move into Executive Session at 9:45 a.m. to confer with the Plan's legal counsel on items related to procurement, pursuant to HRS § 92-5(a)(4), and to deliberate or make a decision upon a matter that requires the consideration of information that must be kept confidential pursuant to a state or federal law, pursuant to HRS §§ 92-5(a)(8), 103D-105, and 103D-303. The motion passed unanimously.**

Chairperson Moto thanks everyone for joining today's meeting and excused the Prudential Retirement representatives. The Segal Marco representatives remained to provide information about RFP No. DCP-16-1 and RFP No. DCP 16-2, which Segal Marco had reviewed and analyzed for the Board.

EXECUTIVE SESSION

Meeting

Reconvened: **A motion was made by Trustee Rapoza and seconded by Trustee Nishimoto to move out of Executive Session at 10:57 a.m. The motion passed unanimously.**

Chairperson Moto thanked everyone for attending today's meeting.

**A motion was made by Trustee Rapoza and seconded by Trustee Machida to adjourn the meeting at 10:57 a.m. The motion passed unanimously.**

**(NOTE: Signed copy on file.)**