

**DRAFT – PENDING BOARD APPROVAL**  
**STATE OF HAWAII**  
**DEFERRED COMPENSATION PLAN**  
**BOARD OF TRUSTEES**

**OPEN SESSION MINUTES**  
**MEETING # 442**

Date: December 14, 2021

Place: Department of Human Resources Development  
14<sup>th</sup> 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 (arrived at 9:41 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  
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  
Ata Azarshahi, National Life Group  
Daniel Grundman, National Life Group

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 Introductions

Chairperson Rapoza welcomed everyone and proceeded with the introductions of the Board members, Board staff, and other guest attendees. He explained that Trustee Becker was excused from today's meeting and Trustee Wada will be joining later. He also 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. 441 for the October 26, 2021 meeting

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

**A motion was made by Trustee Young and seconded by Trustee Matsuyama to approve Minutes No. 441, as presented. The motion passed unanimously.**

Agenda

Item # 4: Plan Administrator's Report

a. Plan Highlights for the Second and Third Quarters 2021

Ms. Klassen presented on the Plan Administrator's Report where she focused on the key plan data portion of the report.

- The Vanguard Target Date Fund mapping is targeted for January 2022. The vehicles will change from institutional retail to collective investment trusts (CITs). Participant notices are expected to be mailed out in December 2021.
- The Prudential fee reduction, which the Board accepted at the October 26, 2021 Board meeting, is effective as of October 1, 2021 and will be collected quarterly in arrears. Participants will see this fee reduction, from 11 basis points to 8.5 basis points, in January 2022.
- Empower Retirement and Prudential Retirement held another webcast with updates for the transition to Empower. The most recent webcast focused on the participant experience.
- The IRS annual contribution limits for 2022 will increase from \$19,500 to \$20,500; and the special 3-year catch up limit will be \$41,000. The age 50 catch up limit will remain at \$6,500 or maximum of \$27,000.

- Plan assets as of the Third Quarter end exceeded \$3 billion with most of the assets in the Stable Value Fund.
- The Plan participation rates for 2021 Quarter 2 and 3 were presented to the Board. Ms. Klassen explained the different rates to the Board based on the differing categories such as the Plan participation rate excluding DOE and UH, overall Plan participation rates, contributions, and distributions.

Ms. Baran presented the next section of the Plan Administrator's Report which focused on the communication and education updates for the Plan.

- Prudential rolled out a new webinar for Plan participants about Understanding Financial Wellness and Building Your Retirement Savings. There were 10 live sessions that participants could have attended. Prudential has the recorded playback on the Plan website for those who couldn't attend.
- The webinar went over topics of inflation, market volatility, action plans, and tracking financial progress.
- Engagement with the Department of Education (DOE) and the University of Hawaii has led to new materials for participants from these departments. Two live sessions were held for employees from these departments to learn more about the differences and benefits of the Island Savings Plan. The recorded playback is available on the Island Savings website as one of their new webinars.

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

- Updates included the impact the pandemic had on Plan enrollments, elections, and rollovers.
- The ongoing initiatives include:
  - Expanded webinar outreach to key areas like the DOE, UH, and Hawaii Government Employees Association (HGEA) including:
    - A first ever webinar series for the DOE that focused on the key differences between the Island Savings Plan and the available individual 403(b) offerings.
    - A first ever webinar series for the HGEA.
    - Quarterly UH webinars.
    - A new webinar available for all participants on the Plan website about Understanding Financial Wellness.
  - Retiree Calling Campaign where counselors reach out to recent retirees to discuss advantages of the Plan and their post retirement options.
  - Counselors have assisted with accumulated vacation contribution elections resulting in approximately \$6.2 million in additional contributions.
  - Counselors have assisted with 255 rollovers into the Plan totaling approximately \$10.4 million.

- Ongoing efforts to reduce the number of ineligible contributions received by the Plan and subsequent recalls.
- Created and expanded the use of HR/payroll key contact email list for ongoing communications regarding the promotion of webinars, virtual counseling sessions, topics of interest, and other Plan developments.

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

Trustee Wada joined the meeting at 9:41 a.m.

There were no questions from the Board.

#### Agenda

#### Item # 5: Performance Evaluation Performance Report for the Third Quarter 2021 by Segal Marco Advisors

Mr. Chaikin presented the Third Quarter 2021 Performance Evaluation Report. He provided the defined contribution updates to the Board, including the lawsuits that continue to come up with other DC plans. However, Mr. Chaikin assured that the Board has been doing their due diligence in monitoring the fund's performance. Ms. Carter added that lawsuits related to fees are continuing on the corporate side. The Board would be protected by being prudent in actions taken, such as the competitive bid process that the Board utilizes for investment searches which helps to keep fiduciary standards in line.

The next topic of the report was the market overview. Mr. Chaikin provided some highlights on the market growth and inflation.

- U.S. GDP rose 2.0% quarter-over-quarter which compared to previous quarter's 6.7%, is a sharp slowdown. This can be attributed to the pandemic and the discomfort of saving money during these times.
- Inflation in the last 2 months increased to 5.4% and is expected to increase further in the future. He reminded that inflation is not always a bad thing as it also means there is growth.
- U.S. equities were slightly up in 2021.
- Developed international equities and emerging markets saw negative returns.
- Fixed income trended up at the beginning of the year but then saw returns flatten.

Plan assets increased to \$3.08 billion as of September 30, 2021 and there were no significant changes to the allocation of investments. The investment expenses have remained competitive with their respective peer groups. Mr. Chaikin also wanted to point out that most investment options have good relative returns

against benchmarks and peer groups over longer time periods. There has been some short-term deviation, but managers have stayed their course.

The biggest outliers were the William Blair Small-Mid Cap Growth fund and the MFS International Value Fund. However, there are no recommendations at this time.

There were no questions from the Board.

### Agenda

Item # 6: Status update on the Vanguard Target Retirement Funds, including but not limited to:

- a. Consideration on the Addition of the Vanguard Income and Growth Trust Fund, and Potential Action Thereon

At the previous Board meeting, the Board was informed of the consolidation changes Vanguard is making to the Vanguard Institutional Target Retirement Funds, and the offering of the Vanguard Target Retirement Trusts II (CITs) as an alternative vehicle. After considerations, the Board voted to move to the CIT option. Included with the CIT option, Vanguard is introducing a new vintage option called the Income and Growth Trust. Mr. Chaikin explained this Income and Growth Trust is a static 50/50, equity/fixed allocation. He stated the changes are mostly related to the vehicles used in the implementation and the investment fees, not the investment team, philosophy, or process.

Trustee Larsen questioned if on the corporate side this option is used in a 401K plan and what the total net assets were. Mr. Chaikin replied that on the corporate side there is no defined benefit component. The CIT funds have been rolled out, but right now the total amount of assets is unknown. Trustee Larsen also inquired if there were some informational documents provided by Vanguard about these changes to which Mr. Chaikin informed there is an educational website available to the Board for the time being.

Chairperson Rapoza asked if Mr. Chaikin had any comments about the option provided by the Plan before the Board decided on their course of action. He commented the Plan has a higher range of options offered when compared to similar plans in a NAGDCA survey. Furthermore, most studies show that plans tend to shrink the number of options available to help minimize confusion for participants.

**A motion was made by Trustee Matsuyama and seconded by Trustee Kitamura to exclude the addition of the Vanguard Income and Growth Trust Fund based on the recommendations of Segal and Prudential. The motion passed unanimously.**

Agenda item #8 was taken out of sequence with Agenda item #7 to follow.

Agenda

Item # 8: Presentation of the Annual Report for the PTS Plan for 2021 by Life Insurance Company of the Southwest

Mr. Azarshahi presented the Annual Report for the PTS Plan for the State of Hawaii and Kauai County to the Board. He summarized the highlights of the PTS Plan to the Board which included Plan assets, contributions to date, credited interests, and State savings.

- There is \$141 million in Plan assets for the PTS Plan. Growth in assets has decreased this year compared to previous years. However, historically this year has seen the most distributions from the Plan with \$7 million in contributions from participants coming in and \$10 million of distributions going out. The reason for the increased distributions may be due to pressures caused from the pandemic.
- Contributions to the Plan have increased throughout the quarters. Quarter 1 saw an increase from \$1.6 million to \$1.9 million in Quarter 2 and 3. Then another increase in contributions in Quarter 4 to \$2.2 million for a total of \$7 million in contributions for the year.
- The Plan received \$3 million in credited interest for the year at a rate of 2.11%.
- The Internal Revenue Code 3121, effective January 1, 1991, permitted government employers to opt out of Social Security for part time, temporary, and seasonal (PTS) employees by providing an alternative retirement plan. The State has saved \$6 million for the year with a \$169 million savings year to date. Kauai County joined in 2017.

Mr. Azarshahi also notified the Board that National Life Group received two upgrades to their Financial Strength Ratings from A.M. Best and Moody's. A.M. Best upgraded their rating of National Life Group to A+ in May 2021 and Moody's upgraded their rating to A1 in June 2021.

There were no questions from the Board.

Agenda

Item # 7: Presentation of the Independent Plan Audit Report for the PTS Deferred Compensation Retirement Plan for Part-time, Temporary and Seasonal/Casual Employees (PTS Plan) for the Plan Year Ending 2020, and Potential Action Thereon

Mr. Azarshahi reviewed the PTS Plan Audit Report for the Board that was completed by Traveller & Company. The audit report looked at the statements of net assets available for benefits, related statements of changes in net assets available for benefits, and related notes to the financial statements for the PTS Plan as of December 31, 2020. The audit involved performing procedures to

obtain audit evidence about the amounts and disclosures in the financial statements. The opinion of the audit of the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the State of Hawaii PTS Plan as of December 31, 2020, and the changes in its net assets available for benefits for the year then ended in accordance with accounting principles.

After Mr. Azarshahi informed the Board of the outcome of the audit, he brought up the PTS Plan's Statements of Net Assets Available for Benefits for Board discussion. In contributions receivable on the statement, there is an amount of \$539 which has been on the statement because of a previous distribution incident. Although attempts to collect the reimbursement from the Department, no reimbursement was received by the Plan and the \$539 has been on the record since. Mr. Azarshahi asked the Board if they would approve the use of the Plan's reimbursement expense account to pay the \$539 to the Plan and resolve this issue.

Chairperson Rapoza explained more in detail to the Board about the incident that occurred and that multiple attempts were made to resolve with the corresponding Department. Trustee Young added that in considering the amount of time that had passed and comparing the \$539 to the total amount in the Plan's expense account, \$539 is a de minimis amount. So, he recommended that the issue be resolved now using the expense account to clear the record for future audits.

There were no further questions from the Board.

**A motion was made by Trustee Young and seconded by Trustee Wada 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. 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 September 30, 2021.

Ms. Akiyoshi reviewed the Quarterly Plan Asset Report for the period ending September 30, 2021. The total combined asset balance in the PTS Plan as of September 30, 2021, totaled \$142,199,068.49.

There were no questions from the Board.

- b. Quarterly Management Report for Period Ending September 30, 2021.

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

**A motion was made by Trustee Matsuyama and seconded by Trustee Larsen to accept the Report on Funds Not Deposited in the State/County Treasuries for the period ending September 30, 2021. The motion passed unanimously.**

Agenda

Item # 10: Other Business/Announcements

Chairperson Rapoza thanked everyone for their participation in today's virtual meeting. He adjourned the meeting at 10:51 a.m.

Taken and recorded by:

Reviewed and approved by:

---

Cynthia Akiyoshi  
Board Staff

---

Kalei P. Rapoza  
Chairperson