

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

**OPEN SESSION MINUTES**  
**MEETING # 446**

Date: October 13, 2022

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

Present: Kalei Rapoza, Chairperson  
Ryker Wada, Ex-Officio Member  
Lance Larsen Jr., Employee Member  
Reiko Matsuyama, Employee Member  
Ken Kitamura, Employee Member  
Randall Nishiyama, Deputy Attorney General  
LiAnn Tokuda, DHRD Staff  
Doreen Kuroda, DHRD Staff  
David Greengard, Segal Marco Advisors  
Jeffrey Nipp, Segal Marco Advisors  
Wendy Carter, Segal Marco Advisors  
Kevin Malmud, Plan Administrator Staff (Empower)/Honolulu Office  
Julie Klassen, Empower  
Carol Blumenthal, Empower

Present via  
Teams Link: Deborah Baran, Empower  
Jeanne Kanai, Empower  
Lisa Hoxha, Empower

Guest  
Attendees: David Keane, DHRD Employee

Call to Order: There being a quorum present, Chairperson Kalei Rapoza called the meeting to order at 9:00 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 Board Member(s)

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 testimony offered at the meeting.

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Item # 3: Approval of Minutes No. 445 for the July 22, 2022, meeting

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

**A motion was made by Trustee Matsuyama and seconded by Trustee Wada to approve Minutes No. 445, as presented. The motion passed unanimously.**

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Item # 4: Plan Administrator's Report

a. Plan Highlights for the Second Quarter 2022

Ms. Klassen presented the Plan Highlights for the Second Quarter 2022 to the Board.

She started with an update on the Plan migration to the Empower platform.

- Effective April 1, 2022, Empower acquired Prudential's retirement business. However, the Plan is using the same record keeping system from heritage Prudential until it migrates to the Empower platform. The migration date for the Plan is expected to occur in the First Quarter of 2024 and specific dates for the Plan's migration will be confirmed as it gets closer to the migration timeframe. Communications on the details about the Empower migration will be provided to the Board and Staff. Participant communications will include both pre-migration and post-migration information.

There were no questions from the Board on the migration update.

Ms. Klassen presented the Plan Overview of the Plan Administrator's Report.

- The participation rate of all eligible employees in the Plan is about 26% as of June 30, 2022. There is room for improvement on the participation rate for the Plan and Empower, along with Board Staff, will be working together to deliberate how to increase participation.

- Ms. Klassen explained the Plan Demographic Summary shows a trend in participant activity. Activity such as contributions and rollovers increased during the First Quarter and then slightly declined in the Second Quarter.
- About 20% of participants utilize the Plan's asset allocation tools. These tools include GoalMaker, the Vanguard Target Date Funds, and Managed Accounts. Empower's Retirement Education Counselors will continue to provide education to participants on these various asset allocation tools and can also assist participants in managing long term savings and current needs.

Ms. Blumenthal presented the Plan Administration Accomplishments of the Report.

- Ms. Blumenthal explained to the Board that Empower is having monthly meetings with State central payroll personnel to address recurring payroll items that have caused issues in the past and discuss strategies on resolving these items.
- She updated the Board on the progress of Kauai County's conversion to Workday. She has been working with county consultants and payroll personnel on test files to ensure it uploads into the Empower system correctly. The last file passed testing and Ms. Blumenthal reminded them to prepare for a Roth option to be added to the Plan.

Ms. Baran presented the Communication and Education Updates of the Report.

- Since the Empower transition, updates to communication materials have been made which include design updates to the newsletters and newsletter emails.
- The Vanguard Notices about the transfer of the 2015 Fund and the addition of the 2070 Fund were mailed out in June 2022 and posted on the Plan website.
- A series of market volatility webinars were held in August 2022 for participants. There was a lot of interest in these webinars due to the volatility of the market this year.

Ms. Baran continued with updates for the Upcoming Virtual Benefits Fair.

- The Virtual Benefits Fair will be held on October 26, 2022. Both Ms. Baran and Ms. Hoxha are working closely with the Empower team to recreate the fair on the Empower platform. They are also working with the fund managers and benefit providers who are participating in the fair to coordinate the videos and breakout sessions that will be available. Communications about the fair was sent out via emails, postcards, and flyers to all State employees to encourage everyone to attend. Reports about the fair will be presented to the Board at the meeting following the fair.

There were no questions from the Board.

Ms. Baran continued with an announcement to the Board that she has taken a new position with Empower and will no longer be working on the Plan. She introduced Lisa Hoxha who will be taking over her position as the Lead Communications Strategists for the Plan. Ms. Hoxha introduced herself and provided some personal background to the Board. She has been with Empower for 25 years with most of her career in the government market and the communications department.

Chairperson Rapoza thanked Ms. Baran for all her years of service and dedication to the Plan. He recalled that in 2019, the Plan received a NAGDCA award for National Retirement Security Week that would not have been possible without her efforts.

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

- Empower conducted a total of seven “Understanding Market Volatility” webinars. One for the University of Hawaii (UH) in July 2022 and six Plan wide in August 2022.
- Empower also conducted a series of webinars for staff of outgoing administration regarding the benefits of remaining in Plan and how to defer additional contributions via the Post Separation Vacation Pay Deferral (PSVPD) Program.
- As of June 30, 2022, Empower has:
  - Assisted 141 participants with their PSVPD Contribution elections for a total of \$2.8 million in additional contributions into the Plan.
    - The volume of these PSVPD tends to increase towards the end of the year, so the local office team is preparing for this.
  - Assisted 111 rollovers into the Plan totaling \$5.6 million in additional assets rolled into the Plan.
  - Continued their monthly outreach to participants that have recently retired with the Retiree Calling Campaign.
  - Begun to return to the field with in-person meetings on Oahu and the neighbor islands. Virtual meetings are still available with the Retirement Education Counselors.
- A series of training webinars will be held for HR and Payroll personnel on the PSVPD Program. These webinars will explain the program in depth, review the required forms, and answer any questions personnel might have about the program. The webinars will be held in November 2022.
- Empower and Board Staff are planning the future webinars for next year.
- Communication was sent to all HR and Payroll personnel regarding one-time lump sum payments resulting from union settlements.
- Mr. Malmud finished the report with a few testimonies from participants praising their experience they had with a few of the Retirement Education Counselors.

Trustee Matsuyama questioned if the Benefits Fair will continue to be virtual or will move back to in-person. She asked because it is hard to determine the engagement of the employees because she is unable to see who clicked into the

virtual fair. Mr. Malmud expressed that they will follow the direction of the Board but will do virtually when it makes sense and in-person when it makes sense. He remembers the in-person fairs attract a lot of counselor interactions from participants. However, there is extensive planning that goes into the in-person fairs that starts about six months prior to the fair. Ms. Klassen added that the previous in-person fair at the State Capitol attracted about 1,000 attendees. For the first two virtual fairs, the attendance was between 600 to 800 attendees. Ms. Klassen argued the in-person fairs did draw more attendance, but as everyone becomes more acclimated to the virtual workspace, attendance in the virtual fairs could increase as well. Ms. Baran added that the included benefit of a virtual fair is the ability for attendees on all the islands to attend one fair. Pre pandemic, the Plan would have a fair on Oahu in the Spring and a fair on a neighbor island in the Fall, with a rotation of the neighbor islands every year. So, for the participants on the neighbor islands, they would only have a fair every three years on their rotation. She also added that the team is conscious of the budget for the Plan and the expenses for an in-person fair can add up.

Chairperson Rapoza commented that being from Hawai'i island, the employees are very spread out and it is difficult for all employees to attend a fair. He added that the in-person fairs would be better for participant outreach and the Plan should be able to allocate for the budget. Furthermore, part of the Board's responsibility is the education of the participants as well as building trust and confidence in the Plan. Ms. Klassen assured that the Plan has a significant communication and education budget which the Plan has never exceeded on an annual basis. The Empower team is looking forward to discussing with Board Staff on both participant outreach and educational outreach for all eligible employees of the Plan. Chairperson Rapoza stated that he was comfortable utilizing the budget to increase participant education outreach.

There were no further questions from the Board.

b. Update on Upcoming Employees' Virtual Benefits Fair

Ms. Baran confirmed that communications about the Virtual Benefits Fair and the webinar schedule had been distributed and posted on the Plan website. Mr. Malmud and Ms. Klassen briefly mentioned the webinar schedule for the fair.

Trustee Matsuyama wanted to confirm that attendees do not have to pre-register for the fair which Mr. Malmud confirmed the attendees would register the morning of the fair. Ms. Baran added the registration information will be captured and used to randomly select door prize winners and to send out a survey about the benefits fair. In previous in-person fairs, attendees would take the survey before leaving the venue, so there was high participation in the surveys. At previous virtual fairs, the survey was a clickable link that gave attendees the option to take the survey. This led to decreased participation. For this year's virtual fair, the survey will be emailed to all attendees of the fair within the following week.

Ms. Baran has previously updated the Board on the Virtual Fair while discussing her portion of the Plan Administrator's Report.

There were no further questions from the Board.

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Item # 5: Performance Evaluation Performance Report for the Second Quarter 2022 by Segal Marco Advisors

Mr. Greengard presented the Performance Evaluation Performance Report for the 2022 Second Quarter. He presented the Market Environment Overview, Plan Highlights, Investment Lineup Structure, and Performance Review of the Report.

- The inflation rate in the US decreased to 8.3% in August 2022, down from 8.5% in July 2022. This is the lowest it has been in four months.
- The Fed raised rates by 75 basis points (bps) for the third straight time.
- The US entered a technical recession with two consecutive quarters of negative GDP growth. However, the Atlanta Fed GDP is predicting a positive 0.03% growth for quarter three.
- The US economy added 315 thousand jobs in August 2022. This is greater than the 300 thousand expectation, indicating increased hiring across many sectors.
- In September 2022, all liquid asset classes fell with shorter-term income and loans fairsing the best.
- Mr. Greengard reminded the Board that the average Bull Market lasts 51 months and the average Bear Market lasts 20 months. If it is assumed the Bear Market started in January 2022, we would be halfway through a Bear Market and a Bull Market could be right around the corner.
  - Mr. Nipp added that a benefit to a plan like the Island Savings Plan is the Plan receives an automatic dollar cost averaging. The contributions into the Plan are being deducted from payroll every period and participants do not have to think about it. This feature helps participants and the Plan get through the Bear Market and thrive in a Bull Market.
- As of August 31, 2022, Plan assets have decreased to \$2.8 billion.
- The Stable Value Fund remains the largest holding with \$994 million and 35.8% of assets.
- The BlackRock US Large Cap Index Fund remains the second largest holding at \$424 million and 15.3% of assets.
- The Vanguard Target Date Funds holds over \$182 million or 6.7% of assets.
- Investment expenses remain competitive with their respective peer groups.
- The Investment Lineup Structure included in the report provides a visual representation of the funds offered in the Plan divided by asset class.
- Mr. Greengard reviewed the performance of each offering in the Plan and the ranking of the fund among its peers.

Trustee Wada commented that the Performance Report shows an inverse correlation between the “10 year” column and the “YTD” column of the report. He noticed if a fund is doing great in the “10 year” column then it is performing poorly in the “YTD” column. He asked why this is happening. Mr. Greengard answered that investment styles fall out of favor and that overall, there might have been a slight growth tilt over the last 10 years for these funds. If the value of these funds did not return, then the funds might perform poorly over a shorter-term period. If a funds poor performance extends into a long-term, then there is a problem, and the fund will need to be reevaluated. This is the reason the performance of the funds is evaluated over a 10-year period. Mr. Nipp added that in periods where macroeconomics factors has taken over, the research that is done by active managers on these funds gets swallowed by this big picture. So, it is not unusual to see poor result in the shorter-term periods.

There were no further questions from the Board.

#### Agenda

#### Item # 6: Segal Marco Advisors Investment Fund Updates/Announcements and Potential Action Thereon, including but not limited to:

##### a. Investment Management Update on the Wellington Management Research Value Fund

Mr. Greengard provided an update on the Wellington Research Value Fund.

- He recapped that the Wellington Fund used to have two parties in the fund and now only the Plan remains in the fund. The Plan carries the risk of being the sole participant in this Fund.
- Mr. Greengard is researching other options to replace this fund. The replacement fund could have a different vehicle or the same type of investment strategy with Wellington with a larger participation in the fund. However, if a medium is not found, other options will be considered moving forward because he does not believe it is prudent for the Plan to be the sole participant in the Wellington Fund.

There were no questions from the Board.

##### b. Investment Management Update on the American Funds AMCAP

Mr. Greengard continued with his update on the American Funds AMCAP to the Board.

- He compared the American Funds AMCAP and the MainStay Large Cap Growth Fund.
  - Mr. Greengard believes AMCAP was added to the Plan as a core active fund. The fund has drifted over time and resembles a Large Cap Growth Fund instead of a Large Cap Core Fund. Mainstay manages the Large Cap Growth Fund offered in the Plan.

- AMCAP offers 195 stocks while MainStay only offers 47. Fewer stock options lead to more concentrated bets and this explains why MainStay is doing better than AMCAP.
- AMCAP has a lower equity allocation with about 91% in equity while MainStay has 99%.
- On the Holdings-Based Style Map Mr. Greengard presented, AMCAP has more Core Mid and Large Cap exposure than MainStay and has more Growth Mid Cap exposure. This shows AMCAP is spread out and makes benchmarking more difficult. MainStay is mostly Large Cap Growth which is more style pure.
- AMCAP has worse upside capture than MainStay, but better downside capture than MainStay. AMCAP also has lower max drawdown than MainStay, but fewer max drawdown periods than MainStay.
- The comparison between AMCAP and MainStay was to consider the different types of funds in the Plan and why they are available. The Board will also have to consider what they want the overall exposure of funds in the Plan to include for participants to have a diversified group to choose from.

There were no questions from the Board.

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Item # 7:

PTS Deferred Compensation Retirement Plan for Part-time, Temporary and Seasonal and Casual Employees (PTS Plan)

- a. Approval of Report on Funds Not Deposited in the State/County Treasuries for the Period Ending June 30, 2022

Ms. Tokuda reviewed the Quarterly Plan Asset Report for the Board members for the period ending June 30, 2022. The total combined asset balance in the PTS Plan as of June 30, 2022, totaled \$141,716,397.42.

**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 June 30, 2022.**

**The motion passed unanimously.**

- b. Quarterly Management Report for Period Ending June 30, 2022

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

There were no questions from the Board.

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Item #8:

Other Business/Announcements



a. NAGDCA Annual 2022 Conference

The 2022 NAGDCA Annual Conference was held both in-person and virtually. This year's conference was in Baltimore from September 18 to 21, 2022. Three Trustees along with Board Staff attended the conference in-person while two more Trustees attended virtually.

A couple interesting sessions and topics covered were Designing and Implementing Financial Wellness Programs and Exploring Decumulation Solutions with Considerations for Plan Sponsors.

All the topics and sessions covered at the conference were informative and the conference provided plenty of opportunities to network with peers in the government retirement space. The recorded sessions of the conference have also been made available on the NAGDCA website by conference staff to all registered participants.

Chairperson Rapoza commented that he enjoyed the conference, and the discussions were informative. He found the roundtable discussions in small groups to be the most helpful in talking to and learning from peers about other plans similar to the Plan.

Chairperson Rapoza thanked everyone for their participation in today's meeting. He adjourned the meeting at 10:25 a.m.

Taken and recorded by:

Reviewed and approved by:

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LiAnn Tokuda  
Board Staff

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Kalei P. Rapoza  
Chairperson