

**CITY AND COUNTY OF HONOLULU
DEFERRED COMPENSATION PLAN COMMITTEE MEETING**

MINUTES OF THE QUARTERLY MEETING OF THE COMMITTEE

A meeting of the City and County of Honolulu **Deferred Compensation Plan Committee** was held on Friday, June 19, 2020, commencing at 9:33 a.m., at the Mayor's Conference Room, 530 South King Street, 3rd floor, City Hall, Honolulu, Hawaii.

Present: Nelson H. Koyanagi, Jr. (Director of Department of Budget and Fiscal Services (BFS) & Committee Chair)
Carolee Kubo (Director of Department of Human Resources (DHR) & Committee Member) [joined at 9:40 a.m.]
Reid Yamashiro (Deputy Corporation Counsel & Committee Member designee for Acting Corporation Counsel (COR) Paul S. Aoki)
Joan Bolte (Internal Control Chief Accountant & Committee Member designee by Managing Director Roy K. Amemiya, Jr.)
Douglas Chun (Committee Member)
Denise Peterson (Committee Member)
Michael Golojuch (Committee Member)

Staff: Manuel T. Valbuena (BFS Deputy Director & Committee Member Alternate for BFS Director Nelson H. Koyanagi, Jr.)
Florencio "Bugs" Baguio Jr. (Chief, Industrial Safety and Workers Compensation Division, DHR & Committee Member Alternate for DHR Director Carolee Kubo)
Jennifer Tobin (Chief, DHR Benefits, Research, and Transactions Branch)
Lynn Wakatsuki (Deputy Corporation Counsel)
Laura Shimada (Deferred Compensation Plan Committee Administrator and BFS Administrative Services Officer)
Russell Kaya (BFS Administrative Specialist)

Guests: Amy Kondo (Acting First Deputy Corporation Counsel)
Bill Tugaw (Managing Director – NFP Retirement (NFP))
Vince Learned (NFP Senior Plan Advisor)
Gavin Gruenberg (Voya – Senior Vice President – Institutional Clients)
Michelle Williams (Voya – Vice President – Strategic Relationship Management)
Jared Nakamoto (Voya – Hawaii Case Manager)
Stacey Laxton (Voya – Participant Engagement Consultant)
Matthew Takamatsu (Voya – Registered Representative)

I. CALL TO ORDER

With quorum present Nelson H. Koyanagi, Jr. (Chair) called the meeting to order at 9:33 a.m. and presided as chair of the meeting. Laura Shimada (Laura) acted

as secretary of the meeting. Chair then read a statement regarding today's public participation and testimony shall comply with Social Distancing Requirements set forth in Governor Ige's Ninth Supplementary Proclamation dated June 10, 2020, and Mayor Kirk Caldwell's Emergency Order No. 2020-14 dated May 28, 2020.

II. MINUTES OF PREVIOUS MEETINGS—Action

Committee members reviewed and unanimously adopted a motion by Douglas Chun and seconded by Joan Bolte to approve the minutes of the February 21, 2020 quarterly committee meeting. Review and approval of the minutes for the Special Committee Meetings held on April 6, 2020 and May 8, 2020 were postponed to the next quarterly meeting.

III. PUBLIC COMMENTS – Information

Chair asked if there was any public input. No one wished to speak.

The Chair introduced Reid Yamashiro who is the new designee of Acting Corporation Counsel (COR) Paul S. Aoki. The Chair and Committee members also recognized Amy Kondo's service as a Committee Member and wished her well in her retirement.

IV. VOYA REPORT – Information/Action

A. Quarterly Report

Michelle Williams (Michelle) provided a summary of Voya's quarterly Market Review report for the quarter ending March 31, 2020.

1. Client Health Review

- a) Plan Statement – Michelle reported the plan's current and prior period assets, noting that the summary includes April and May 2020, providing a more current view of the plan. Michelle noted that the plan's assets have shown a quick recovery and increased to \$728,578,608 as of May 31, 2020 compared to \$685,492,502 for the same period last year.
- b) Participation – The number of participant accounts has grown steadily for the past four years and is at 9,516 as of May 31, 2020.
- c) Deferral Summary – The average deferral rate continues to be excellent at 8.9% for the plan; with the industry benchmark being 6.8% and the Voya plan average being 5.9%, respectively.
- d) Participant Engagement – The participant's web engagement had an impact on the amount participants are saving. The plan outperformed the average of all Voya's plans; 12.5% for myOrangeMoney (compared to 8.8%), 10.1% for Web Usage (compared to 8.3%), 10.4% for Mobile Usage (compared to 8.2%), and 8.0% for No Web or Mobile Usage (compared to 5.5%).

2. Plan Activity

- a) Michelle indicated that the plan's current net cash flow was flat for the period of January 1 to May 31, 2020. She noted there was a negative cash flow of \$152,473 for the time period, significantly lower than the same time period for the previous four years.

- b) Activity Highlights – The plan continues to see an increase in Roth participants with a 12.78% increase over the prior period.
- c) Current Participation and Enrollment Statistics – Michelle reported that there are 9,515 participant accounts with 5,491 active participants. There were 236 new enrollments with an average deferral rate of 6.1% which is good. She added that Voya behavioral finance research shows that participants probably can save up to ten percent.
- d) Participant's Balance –The plan's average participant balance is over double the Voya Government plan benchmark at \$76,560 versus \$34,494. Approximately \$15 million has left the plan during the current time period.
- e) Diversification – Michelle indicated that 80% of our participants have diversified accounts. The benchmark has an average of 2.7 funds while our Plan is at 3.6 with asset allocation funds and is at 5.0 without asset allocation funds. She noted that is a pretty strong number indicating that participants are paying attention to diversification and not putting their funds in one place. There were 4,453 single fund investors but 3,484 are in asset allocation funds which are diversified.
- f) Managed Accounts – There was a reduction in the number of managed accounts from 470 to 457 with \$45 million in assets which is 6.13% of overall plan assets.

B. Participant Communication & Education Update

Stacey Laxton (Stacey) provided a summary of Voya's quarterly Participant Communication & Education report for the period ending May 31, 2020.

- 1. Personalized Messaging – Stacey reported since February, engagement has gone down 17% but that could be due to COVID-19. Voya decided to stop moving forward with the personalized messaging videos and focus on the CARES Act. The Save More Journey campaign saw 5% of the participants who opened the message take action, the Beneficiary Journey had 14% of the participants who opened the message name a beneficiary, the Diversification Journey had 1% of participants who opened the message diversify their account, and the Stopped Savers had 8% of the targeted participants resume contributions.
- 2. Engagement of Active Participants – Active participant engagement in Q1 was: Mobile App usage 13%, Web usage was 34%, E-Delivery usage was 30%, and Web Registration was 45%. Michelle added that increased focus on E-Delivery and Web Registration enables participants to take advantage of Voya's financial tools and decreases fraudster activity.
- 3. 2020 Objectives – Stacey reviewed the 2020 targeted communication campaign objectives. She noted that the National Retirement Security Week is scheduled for October 18-24, 2020.

C. Stabilizer Update

Gavin Gruenberg (Gavin) provided a summary of Voya's stable value report for the quarter ending March 31, 2020.

1. First Quarter Market Review – Gavin reported that the first quarter was very volatile due to the COVID-19 pandemic. He noted that there has been some recovery in the markets in the last two months. There were some returns in the stable value portfolio that are less than we would like to see but it was still a net positive over the first five months of the year. Gavin noted that the City's portfolio, in terms of market to book ratio is still in a very strong position and noted that Investment Grade Corporate, High Yield Corporate, Non-Agency Residential Mortgage-Backed Securities (RMBS), Asset-Backed Securities, Commercial Mortgage-Backed Securities, and Duration were detractors in the quarter while the Agency RMBS was the only positive contributor to returns.
2. Performance Summary – Gavin reported an underperformance for the quarter by 13 basis points versus the benchmark which was up 249 basis points. He noted that this underperformance also impacted the one year returns. For calendar year returns, he noted encouraging news that in 2019 the portfolio outperformed the benchmark by about 80 basis points overall. He noted that things have settled down in April and we'll have a better picture when we look at the first six months of the year.
3. Portfolio Characteristics – The Yield to Maturity is 2.90% for the quarter as of March 31, 2020. Gavin noted that it dropped to 1.85% as of May 31, 2020 so we continue to see a decline in the rates and the decline in yield will eventually bear itself out in the crediting rate provided to the participants. From a quality comparison standpoint, the main difference between the City's portfolio and the benchmark is that the benchmark has a higher allocation of treasuries and the City's portfolio has more assets in corporate and high yield. The plan's portfolio still has investment grade securities which was a good decision over time, but has more risk than treasuries. This investment decision has worked out well in the past and performed better over time, however lower allocation in Treasuries/Cash did not help a lot in the first quarter.
4. Asset Allocation – The biggest change was an allocation into Agency Mortgages; an increase of 6% from the prior quarter. The allocation into Agency Mortgages was beneficial and was the one positive contributor in the portfolio.
5. Highlights – Gavin noted that it was a difficult first quarter, but as of May 31, 2020, the market to book value was at 104.3% so about a four and a third percentage point gain in the portfolio and the portfolio remains healthy.

D. Coronavirus-Related Distributions (CRD)

The following is a summary of Voya's Coronavirus-Related activity provided by Jared Nakamoto (Jared) ending June 15, 2020.

1. Total CRD Withdrawn – \$416,358.08 has been withdrawn from the plan by 15 participants. The amount of the CRD withdrawals ranged from less

than \$1,000 to the full \$100,000. The majority of the withdrawals were due to participants that lost overtime or special duty income and a few who lost second jobs but most were really grateful to the committee for adopting the CRD provision.

2. Chair asked Jared if participants make a withdrawal, do they get taxed immediately and do they amend their tax return later? Jared noted the vast majority of participants chose to withhold taxes though they are not required to do so. He added that Voya will be issuing a 1099-R for CRD distribution amount and participants need to work out their tax situations with their CPA (Certified Public Accountants).

V. NFP CONSULTING REPORT – Information/Action

A. Semi-Annual Fund Review

Market Review – Vince Learned (Vince) also stated that it was a tough first quarter for the market primarily due to the coronavirus pandemic and the related effect of the economy shutting down. He noted that U.S. equity markets were down about 21% and international markets were down 23%. Fixed income was up 3.1% due to the market's flight to quality mentality and the Federal Reserve decreasing the interest rate to zero. As of the end of the quarter, the labor market suffered close to 10 million new jobless claims. This figure has grown to over 40 million with continuing claims at a little over 20 million. While there was a lot of uncertainty in the market, with the government stimulus, the Feds decreasing the interest rates to zero, and the economy reopening to some extent, the market has rebounded considerably despite this uncertainty. Vince reported that, as of yesterday, the market has recovered almost all of the Q1 losses with U.S. Equity being down 4%, International Equity down 10% and Fixed Income continuing to add to its gains and was up to 5.7%. Vince noted that the Yield Curve was higher a year ago with Government bonds leading the way (up about 8%). He shared a spike (over 900) in Corporate Insiders buying in 2020 at Small Cap Companies going back to 2004.

- ### **B. Watch List Update – Vince explained NFP's Scorecard System Methodology and showed how it uses qualitative and quantitative factors to rate funds. He noted it uses 10 different metrics and each metric is binary so the fund either earns the point or it does not. Vince reported that the City's fund lineup continues to look good and noted there are two funds for review.**

1. Templeton Global Bond R6 I– Vince said this fund was discussed in the previous meeting and nothing has changed in this fund's scoring. The fund tends to be a volatile asset class and NFP recommends that it be removed and the funds be mapped to the age appropriate target date fund.
2. DFA US Targeted Value – Vince explained that the previous replacement recommendation was a CIT (Collective Investment Trust) but the Committee could not accept the contract terms and the fund was not acceptable. The proposed alternative is the American Century Small Cap

Value R6 mutual fund. This was the only fund that scored a 10 and met NFP's qualitative standards, but it comes at a higher cost of 90 basis points (compared to 36 for DFA US Targeted Value). Vince added the higher cost was included in the analysis, noting American Century Small Cap Value's metric information is net of return. NFP recommends to remove DFA US Targeted Value I and map the funds to American Century Small Cap Value.

3. PIMCO Real Return Instl – This fund continues to score a 5. NFP recommends to keep this fund on the watch list.

On a motion duly made by Douglas Chun, seconded by Joan Bolte, and unanimously carried, the Committee voted adopt the watch list as recommended. The Committee also voted to eliminate the DFA US Targeted Value I fund and to map the funds to American Century Small Cap Value R6 and to eliminate the Templeton Global Bond R6 I fund and map the funds to the age appropriate Vanguard Target Retirement Series Inv funds.

- C. Legislation and Regulatory update – Bill Tugaw (Bill) reported several updates.
 1. CARES Act – Bill noted that today the Internal Revenue Service issued clarification that “qualified individual” includes a spouse or household member who lost income.
 2. Portman-Cardin Retirement Reform Bill – He noted that this bill primarily deals with government 457 plans and currently remains in the Senate without opposition. This bill eliminates the first day of the month rule, the required minimum distributions from 457 Roth accounts, and allows Roth IRAs to be rolled into the 457 plan. He noted that due to the pandemic, it's unclear when the Senate will be able to address it.
 3. National Association of Government Defined Contribution Administrators (NAGDCA) Annual Conference – Bill notes NAGDCA sent out a participant survey regarding the October 4th date conference in Seattle. At this point, it remains uncertain what will happen to the Annual Conference given the pandemic. Bill added that the Government Finance Officers Association (GFOA) did their conference virtually last month.

VI. OTHER BUSINESS – Information/Action

- A. Benefits Fair Update – Jenny Tobin reported that despite planning on having a benefits fair in November 2020, she doesn't anticipate being able to safely hold an in-person Fair at that time and recommended putting the Benefits Fair on hold. Laura asked whether the Committee was okay with postponing the fair to next year. Chair agreed to hold the benefits fair in 2021 and to use the funds budgeted for it then.
- B. 457 University Training – The Committee asked whether NFP and Voya were okay with holding the August 457 University training and the Quarterly

meeting virtually. Bill said that NFP was okay with holding both virtually on the dates as originally scheduled and noted that he doesn't expect NFP's travel restrictions to ease significantly until after Labor Day. Gavin said that the dates and virtual meetings were acceptable to Voya. Chair agreed to do the 457 University Training and Quarterly Meeting virtually.

- VII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action** – Laura reviewed the quarterly report and noted that we got one check from Voya for \$55,000 for the first quarter, had \$14,389.50 in expenses and ended with a balance of \$392,760.85.

On a motion by Joan Bolte, seconded by Douglas Chun, the Committee unanimously approved the Committee's administrative expenses.

VIII. NEXT MEETING DATES – Information

- 457 University Training – to be virtual
Thursday, August 13, 2020, 9:00 a.m. – 3:00 p.m.
- Third Quarter – to be virtual
Friday, August 14, 2020, 10:00 a.m. – 12:00 p.m.
- Fourth Quarter
Friday, November 20, 2020, 9:30 a.m. – 12:00 p.m.

- IX. ANNOUNCEMENTS** – There were no announcements.

- X. ADJOURNMENT** – There being no further business, the meeting was adjourned at 11:21 a.m.

Respectfully submitted,

Laura Shimada
Secretary