

**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, February 19, 2021, at the Mayor's Conference Room, Honolulu Hale, 530 South King Street, 3rd Floor, City Hall, Honolulu, Hawaii.

Present: Andrew T. Kawano (Department of Budget and Fiscal Services (BFS) Director & Committee Chair)
Reid Yamashiro (Deputy Corporation Counsel & Committee Member designee for Acting Corporation Counsel (COR) Paul S. Aoki) (by webex)
Alison Look (Acting Internal Control Chief Accountant & Committee Member designee by Managing Director Michael Formby) (by webex)
Florencio "Bugs" Baguio, Jr. (Department of Human Resources (DHR) Acting Assistant Director & Committee Member Alternate for DHR Acting Director Noel T. Ono) (DHR Conference Room)
Douglas Chun (Committee Member) (by webex)
Denise Peterson (Committee Member) (by webex)
Michael Golojuch (Committee Member) (DHR Conference Room)

Excused: Noel T. Ono (DHR Acting Director & Committee Member)

Staff: Kelli Nishimura (BFS Acting Deputy Director)
Jennifer Tobin (Chief, DHR Benefits, Research, and Transactions Branch) (DHR Conference Room)
Lynn Wakatsuki (Deputy Corporation Counsel)
Laura Shimada (Deferred Compensation Plan Committee Administrator & BFS Administrative Services Officer)
Jennifer Bishop (BFS Administrative Specialist) (by webex)

Guests: Bill Tugaw (Managing Director – NFP Retirement (NFP) (by webex)
Anthony Camp (Voya – Vice President – Stable Value Product Group) (by webex)
Gavin Gruenberg (Voya – Senior Vice President – Institutional Clients) (by webex)
Jared Nakamoto (Voya – Hawaii Case Manager)

Andrew T. Kawano (Chair) read a statement on public participation and testimony to comply with Social Distancing Requirements set forth in Governor Ige's Eighteenth Proclamation Related to the COVID-19 Emergency issued on February 12, 2021, and Mayor Rick Blangiardi's Emergency Order No. 2021-01 dated February 9, 2021.

I. CALL TO ORDER

With quorum present Andrew T. Kawano (Chair) called the meeting to order at 10:19 a.m. and presided as chair of the meeting. Laura Shimada (Laura) acted as secretary of the meeting.

II. MINUTES OF PREVIOUS MEETINGS—Action

Committee members reviewed and unanimously adopted a motion by Michael Golojuch, seconded by Douglas Chun, to approve the November 20, 2020, Quarterly meeting minutes.

III. PUBLIC COMMENTS – Information

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

IV. VOYA REPORT – Information/Action

A. Overview and Update of Stabilizer Stable Value Portfolio – provided by Anthony Camp (Tony). Highlights included:

1. Tony provided an explanation of Voya's Stable Value Business distribution and Voya's strong pro forma capital position. Tony noted that as of December 31, 2020, Voya's Stable Value Business was approaching \$80 billion with \$8 billion in the Stabilizer Stable Value Product, \$35.9 billion in Managed Custody and \$35.4 billion in the Fixed Account. Voya's Risk-Based Capital Ratio, which is the amount of capital to book liabilities, is at 498%, which is well over the target of 400%. Voya has \$1.8 billion in excess capital and their financial leverage ratio which is the amount of debt that Voya has is just slightly over the target.
2. Financial Strength Ratings remain solid. As of December 2020, Voya received an A+ rating from Standard & Poor's, an A rating from Fitch Ratings, and an A2 rating from Moody's with all giving Voya a stable outlook.
3. 2020 Stable Value Market Observations – There was incredible growth in the stable value fund, mostly in the first quarter of 2020 with the pandemic that caused a lot of financial panic and resulted in stable value funds receiving a heavy positive cash flow; end of year data is not yet available.

The fixed income investment strategy for a stable value fund impacts the return the participants get. The Federal Funds rate peaked at 2.5% in December 2018 and the Fed moved it to 0% in March 2020, where it remains today. Interest rates have a lot to do with future crediting rates of stable value funds and the Market to Book Ratio was impacted by the Fed's actions. Currently, the City's market to book ratio is highly positive due to the dropping of fixed income yields.

4. The City's stable value funds have one contract that does everything for the stable value portfolio. There is no comingling of the City's stable funds with Voya's assets or other clients of Voya because the City has over \$100 million in assets and qualifies for an individual separate account.
5. Tony summarized the City's contract position as of February 12, 2021, noting that the City's Stabilizer Market Value is at \$192 million and the

Stabilizer Book Value is at \$183 million. There is a surplus of about \$9.5 million, with a Market to Book Value ratio of 105.17% and a current crediting rate of 2.45%. He also provided a summary of the Stable Value Characteristics Survey, 1st Quarter Renewal Rate Attribution, provided historical data on net cash flow, stabilizer data, contract values, gross historical yield versus net rates, and the Market-to-Book ratio and Treasury Rates. He noted that in the last year, the City experienced positive investment performance and positive cash flow.

Chair asked Tony to share information on the fund expenses. Tony explained that the expense is 46 basis points and that the participant level net crediting rate is calculated by taking the gross crediting rate less the expense. Bill Tugaw (Bill) noted that the expense has been steady for years and will not change unless both Voya and the City agree to a change.

6. Tony reviewed the performance summary for the quarter ending December 31, 2020 and said that the Sean Banai and the Voya Investment Management Team outperformed the benchmark by about 110 basis points for the year and in each of the time periods which shows their strong performance over time.

Bill expressed that NFP is very pleased with Voya investment management. He also explained that since 2010, the Committee approved giving the Committee Chair the authority to approve the crediting rate as long as any change to the rate is within 25 basis points of the prior rate. If the crediting rate changes more than 25 basis points, then the Committee would have to vote to approve the change.

B. Vanguard Target Date Portfolios – Gavin Gruenberg (Gavin) presented the following action items to the Committee.

1. Changing from investor share class to institutional share class to reduce expenses. Gavin explained that a few months ago Vanguard reduced the minimum amounts needed to qualify for the institutional class target date funds. He noted that moving from the existing investor share class with expenses ranging from 12 to 15 basis points to the institutional class would reduce the expenses to 9 basis points.

Douglas Chun (Doug) asked if there was any downside to moving to the institutional class. Gavin responded that there was no downside to moving to the institutional class and that participants would be notified of the change 30 days in advance. Bill noted that NFP really supports taking this reduction in expenses.

2. Consider adding 5-year increments to the target retirement dates. Gavin explained that the current Vanguard target retirement date series are in 10-year increments. He asked the Committee to consider expanding to 5-year increments which would allow for more specific selection by participants in terms of their expected retirement date. Bill noted that the

5-year increments would be beneficial to the participants and expressed NFP's support.

Douglas Chun (Doug) expressed his full support of both proposed changes.

On a motion duly made by Douglas Chun, seconded by Michael Golojuch, and unanimously carried, the Committee voted to approve the recommended changes of moving the Vanguard Target Date Portfolios to the institutional share class and adding 5-year increments to the target retirement date funds as proposed.

- C. Other Issues: Coronavirus Related Distribution (CRD): Gavin provided that there were a total of 202 CRD transactions from 170 participants totaling \$6.09 million. Jared Nakamoto (Jared) noted that there have been a few recent inquiries from participants asking for a distribution for 2021 and because the IRS has not allowed it for this year, participants were told that the CRDs are not allowed for 2021. Voya explained the traditional unforeseen emergency withdrawal procedures, but none qualified under the existing guidelines.

At 11:06 a.m., Tony was excused from the meeting.

V. NFP CONSULTING REPORT – Information/Action

- A. Watch List Update – Bill explained that NFP performs a fiduciary investment review on a semiannual basis so he would only focus on the funds with concerns. He noted that NFP will provide the complete investment performance review at the next meeting. Bill briefly explained NFP's score card and the point rating scale and noted that funds that score a 5 or 6 for four consecutive quarters or for five out of the last eight quarters are candidates for the watch list. Funds that score a 4 or below are candidates to be replaced.
1. American Funds Growth Fund of America: This fund has a score of 6. Bill explained that this fund takes on more international exposure than its other large cap growth peers, and domestic stocks have been outperforming international stocks up until this last quarter. Normally, there would not be concern for this fund, but the City's investment policy requires funds on the watch list after four quarters may be considered for replacement. NFP recommends that this fund remain on the watch list.

Reid Yamashiro (Reid) noted that the fund is one of the top performing funds but is on the watch list. Bill explained that it is on the watch list based on the investment policy statement, and that the peer group does not carry as much international as this fund does. This fund behaves a bit differently than other large cap growth funds, but he is not concerned about this fund.

2. Principal Mid Cap Institutional: This fund is on the watch list because it scored a 6 three quarters ago. It scored a 7 in the last two quarters and

is currently scoring satisfactorily so NFP is not concerned about this fund. NFP recommends that this fund remain on the watch list.

3. PIMCO Real Return: This fund is currently scoring a 9, same as last quarter, but scored a 5 for the two previous quarters. Bill explained that the lead manager of the fund retired and so the qualitative score is only a 1 instead of the possible 2 points. NFP is familiar with the management team and has no concerns over this fund. NFP recommends that this fund remain on the watch list because it scored a 5 in two previous quarters.

Chair asked how the risk asset allocation funds are scored. Bill explained that those are funds made up of funds from the portfolio, and by reviewing and scoring the individual funds, they are scoring the risk asset allocation funds. Chair wants to ensure that the risk asset allocation funds have the right mix and that these funds are also reviewed from time to time. Bill made a note for the next investment performance review, the investment management team will look at the investment percentages to see if there are any adjustments to be made.

On a motion duly made by Douglas Chun, seconded by Michael Golojuch, and unanimously carried, the Committee voted to accept and approve the consultant report including the Watch List as recommended by NFP.

B. Legislative and Regulatory Update – Bill provided the report.

1. The House Ways and Means committee introduced the Securing a Strong Retirement Act of 2020, also known as the Secure Act 2.0, which is similar to the Portman-Cardin bill in the Senate. The Secure Act 2.0 eliminates the public sector 457 governmental plan rule that requires the first contribution to be after the first day of the following month, increases the age for the required minimum distribution (RMD) from age 72 to age 75, and adds another catch-up contribution of \$10,000 for those 60 and above. Unique in the House Bill, persons who have total defined contribution assets of less than \$100,000 will not be required to do an RMD. NFP supports these changes, and expects these bills to be joined in a conference committee between the House and the Senate to work out the differences.
2. Currently, except for ROTH, the traditional 457 or 401K or 403(b) are tax deferred and taxed as ordinary income when withdrawn. President Biden is likely to recommend moving from a deferred compensation to a refundable tax credit of 26%. President Biden's campaign website also said he was going to change the tax code on certain individuals. There is no information as to the timing, but both would significantly change defined contribution and deferred compensation plans.

C. Other Issues – None.

VI. OTHER BUSINESS – Information/Action

- A. SECURE Act Update – The SECURE Act was discussed at the Annual Meeting during Voya's performance standards review so there is no need for this item.

At 11:37 a.m., Voya was excused from the meeting.

- B. Voya Contract Discussion – Laura explained that the Committee approved the second one-year extension of Voya's contract at the November 2020 meeting. At that meeting, Michael Golojuch (Mike) suggested the Committee look at the possibility of renegotiating the contract terms versus going out for a request for proposal (RFP). Bill noted that Voya has always met the performance standards and provider performance reviews so not much change needed for services. He has a good understanding about pricing levels because NFP conducts many RFPs for 457 plans nationwide. He recommended that we proceed with the renegotiation with the expectation that Voya will bring their revenue requirement down to make it competitive and said that we could still do an RFP after the renegotiation if needed. This will be cheaper and take less time and reminded the Committee to be aware that reducing the revenue requirement too much may also reduce the quality of services being provided.

Further, Laura stated that one of the goals is to determine the right balance and not build up a large reserve where excess reserves have to be periodically returned to participants. Bill stated he would look at the reserve policy and the expenses to determine an appropriate amount for the reserve fund.

Doug asked the Committee if there are any restrictions relative to state statute, city law, or other regulations that would prohibit the Committee from doing renegotiation. Laura explained that the Committee is not subject to procurement laws since the funds are not City funds. Lynn Wakatsuki (Lynn) concurred and added that although the Committee is not subject to ERISA or the State procurement code, the Committee follows ERISA and procurement code when able to. Florencio "Bugs" Baguio Jr. (Bugs) stated that he does not see any issues from the HR perspective.

Doug stated that he agreed that the Committee has an excellent working relationship with Voya and he is very satisfied with their performance to date. He stated he would support a decision to renegotiate if it is something that NFP recommends and it is in the best interest of the participants and plan.

Chair asked what the typical contract length is for comparable services, what the total fee range is for comparable plans, and how the City's plan compares. Bill answered that Voya's current revenue requirement is 12 basis points and he expects that with a new RFP, Voya could possibly lower it to 8

or 9 basis points. He noted that plans with \$800-900 million assets do not normally have 5 or 6 representatives.

A typical renegotiation takes about three months and an RFP would be a seven month process. Starting the renegotiation process now would allow the Committee to make a decision by early summer as to whether to proceed with an RFP with enough time before the current contract ends on March 31, 2022. Bill stated that typical length for a contract is five years with two one-year extensions upon mutual agreement. Bill further explained that for the renegotiation, Voya will complete a renegotiation questionnaire that will include any new performance standards. The Chair asked if the Committee was comfortable with voting today. All committee members responded in the affirmative.

On a motion duly made by Douglas Chun, seconded by Michael Golojuch, and unanimously carried, the Committee voted to accept and approve NFP's recommended action to seek a proposal from Voya relative to a renegotiated contract, followed by a working group discussion of the proposal, and to proceed with an RFP, if necessary.

The Chair asked for volunteers for the working group. Bugs, Doug, and Chair volunteered to serve on the working group.

- C. 2021 Election update – Tabled in the interest of time.
- D. Benefits Fair Update – Tabled in the interest of time.
- E. Other Issues – None

VII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Laura reviewed the quarterly report and noted that \$110,000 was received from Voya for Q3 and Q4. For the expenses, \$12,375 for NFP's Q4 consulting fees, \$8,571 to Ward Research for the 2021 election, and \$600 for the NAGDCA membership dues for 2021. She noted the ending balance is \$503,866.90.

On a motion duly made by Michael Golojuch, seconded by Doug Chin, and unanimously carried, the Committee approved the Committee's administrative expenses.

VIII. EXECUTIVE SESSION (not required)

The Committee did not go into Executive Session.

IX. NEXT MEETING DATES – Information

Second Quarter – Mayor's Conference Room
Friday, May 14, 2021, 9:30 a.m. – 12:00 p.m.

457 University Training – FMB 10th Floor
Thursday, August 12, 2021, 9:00 a.m. – 3:00 p.m.

Third Quarter – Mayor’s Conference Room
Friday, August 13, 2021, 10:00 a.m. – 12:00 p.m.

Fourth Quarter – Mayor’s Conference Room
Friday, November 19, 2021, 9:30 a.m. – 12:00 p.m.

X. ANNOUNCEMENTS

Mike announced that NAGDCA may add a fifth award category.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned at 12:02 p.m.

Respectfully submitted,

Laura Shimada
Secretary