

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

MINUTES OF THE QUARTERLY MEETING OF THE COMMITTEE

The Quarterly meeting of the City and County of Honolulu Deferred Compensation Plan Committee (“Committee”) was held on Friday, August 26, 2022, at the Mayor’s Conference Room, 530 South King Street, 3rd Floor, City Hall, Honolulu, Hawaii.

Present: Andrew Kawano (Department of Budget and Fiscal Services (BFS) Director & Committee Chair)
Nola Miyasaki (Department of Human Resources (DHR) Director & Committee Member) (by webex)
Reid Yamashiro (Deputy Corporation Counsel & Committee Member designee for Corporation Counsel Dana Viola)
Chamara Silva, (Committee Member designee for Managing Director Michael Formby)
Chase Masuda (Committee Member)
Michael Golojuch (Committee Member)
Douglas Chun (Committee Member) (by webex)

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

Guests: Bill Tugaw (NFP Retirement (NFP) – Managing Director)
Paul Hackleman (NFP Senior Consultant) (by webex)
Gavin Gruenberg (Voya – Senior Vice President – Institutional Clients)
Deirdre Jones (Voya – Vice President – Strategic Relationship Management)
Jared Nakamoto (Voya – Financial Advisor and Hawaii Case Manager)
Stacey Laxton (Voya – Communications Consultant) (by webex)

Andrew Kawano (Chair) agreed to allow committee members Douglas Chun (Doug) and Nola Miyasaki (Nola) to participate remotely. Doug participated remotely from his office in Honolulu Hale and Nola participated remotely from an office in Kapolei Hale. Doug and Nola both confirmed no one else was present in their respective offices. Chair also allowed staff and other Voya or NFP staff to participate remotely.

Chair read a statement on allowing public participation and testimony in a manner consistent with safe COVID-19 practices in compliance with Act 220, Session Laws of Hawaii (SLH) 2021, Act 177, SLH 2022, and Act 264, SLH 2022.

I. CALL TO ORDER

With quorum present Chair called the meeting to order at 10:07 a.m. and presided as chair of the meeting. Laura Shimada (Laura) acted as secretary of the meeting.

II. ANNOUNCEMENTS

Chair introduced Chamara Silva, Managing Director's Committee member designee and Deputy Corporation Counsel Jessica Wong, who replaces Ryan Ota as the backup for Deputy Corporation Counsel Lynn Wakatsuki. Chair also recognized Alison Look, former Managing Director's designee Committee member, who retired on August 1, 2022, and Ryan Ota, who is now working for the State. Just before this meeting was adjourned, it was announced that Doug will be retiring on December 1, 2022.

III. MINUTES OF PREVIOUS MEETING – Action

Committee members reviewed May 20, 2022, Quarterly Meeting minutes and Chair asked for any discussion.

On a motion duly made by Michael Golojuch, seconded by Reid Yamashiro, and unanimously carried, the Committee approved the May 20, 2022, Quarterly Meeting minutes.

IV. PUBLIC COMMENTS – Information

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

V. VOYA REPORT – Information/Action

A. Quarterly Report – Deirdre Jones (Deirdre) provided the following highlights for the first two quarters of the year, ending on June 30, 2022.

1. Client Health Review

- a. Plan Statement – The quarter closed with \$812.6 million in assets, which is down by a little over 16% since the start of the year and is reflective of market conditions.
- b. Participation – There were 63 new participants at the end of Q2 for a total of 9,715 participants. There has been a steady increase year over year of participants, which is positive.
- c. Participant Engagement – The majority of participants interact with Voya through the internet and mobile devices. Voya has made enhancements on the mobile app and Spanish is now an option. Participants making a change to their percentage deferral rate will see that change converted to a dollar amount. Participants utilizing

the call center have the option of using their voice as an authenticator which is more secure than using PINs which can be compromised. Deirdre explained that voices are very unique and the accuracy rate of Voya voice print is 99.8%. Participants also have the option of using the voice print authentication on the mobile app. Upcoming enhancements include the ability to change beneficiary information through the mobile app.

Doug asked about the significant decrease in contributions on the Plan Statement page. Deirdre said she will look into it and get back to the Committee, and pointed out that it may be due to several reasons such as participants decreasing their deferral percentages or retirees no longer contributing.

Deirdre highlighted the ability of the MyOrangeMoney tool to show a gap analysis of the participant's projected income needed for retirement, and that participants who use the tool tend to have a higher deferral rate. Participants who use the MyOrangeMoney tool have an average deferral rate of 12.6% which is much higher than other Voya participants at 9.3%.

Bill Tugaw (Bill) asked Deirdre if the bar graphs in the handouts could be the same scale to show an equal and accurate visual representation of the City's average deferral rate of 12.6% compared to the benchmark of Voya plans at 9.3%. The current graph shows the City's scale going up to 15% whereas the graph for All Voya plans is only going up to 10% and since the scale is not the same it looks like the City's plan is the same as the benchmark. Jenny Tobin recommended consolidating the two into one chart. Deirdre said she will look into customization of the graphs to show the difference between the City's plan compared with Voya's other plans.

2. Plan Activity

- a. Transactional Activity Detail – Hardship withdrawals increased from 7 in 2021 to 27 during the same period in 2022. The majority, or 65%, of the withdrawals was due to loss of wages and the next highest reason was for medical expenses. Deirdre recommended a future discussion be held on how to help participants better prepare for emergency expenses.

Deirdre noted that contributions are relatively static over the last several years, showing that participants are staying the course even with the current challenging market conditions and continue to contribute to the plan.

Doug recommended increasing marketing efforts to educate participants about the tax benefits of Roth investments. Stacey Laxton (Stacey) asked whether the Committee wanted to add a new campaign for this year or incorporate the message into a campaign in 2023. Doug responded that whatever was best for Voya and the Committee would be appreciated.

- b. Contribution Summary – As individuals near retirement, they become more focused on preparing for retirement and it is common to see their contributions increase.
 - c. Current Participation and Enrollment Statistics – The current average amount of what participants are deferring into the plan is 9.5%. Bill noted that there are 957 accounts with a balance of less than \$5,000, which are considered de minimus. He further explained that these accounts are from terminated employees with under \$5,000 with no contributions within 2 years, and the accounts may be cashed out if the balance is under \$1,000 or if over \$1,000 moved to an IRA. These types of accounts can be a drag on the record keeping system. Gavin Gruenberg (Gavin) explained that Voya has mechanisms in place to cash out or roll over balances, depending on the balance of the account. Gavin suggested providing the Committee with a breakdown of the 957 accounts, including balances and termination dates, so that an informed decision could be made. The Chair agreed and asked Voya to provide the information at the next meeting so that the Committee could take action.
 - d. Participant Balance – The average account balance has decreased from the prior year, but still almost double the average account balance when compared to Voya's governmental benchmarks.
 - e. Distribution Summary – Deirdre noted that the majority of the distributions are from withdrawals. Voya will provide the Committee with additional information on whether the funds are being transferred to IRA or to another plan. Gavin noted that this type of information is one of the performance standards and is provided in a report annually.
 - f. Diversification – Doug asked about the 4,747 participants with a single asset. Gavin explained that 3,805 of those participants are in an asset allocation fund, such as the Target Risk Fund or the Vanguard Target Retirement fund and are diversified.
 - g. Managed Accounts by Morningstar – There are 434 participants utilizing the managed accounts feature, which includes about \$46.9 million of the plan assets.
3. Plan Investment Review – Bill asked about the Stabilizer balance and whether there has been a trend of participants moving to the Stabilizer option due to the current market conditions. Gavin stated the balance as of March 31, 2022, was \$163 million and as of June 30, 2022, the

balance was about \$164 million, not showing a great change since the last quarter. In looking further back at the year end of 2021, Gavin noted the balance was \$164 million and so there has not been much change even with the current market conditions.

- B. Stabilizer Update – Gavin provided an update Stable Value Portfolio. The U.S. and non-U.S. financial markets sustained sizable losses in Q2, including commodities. With losses of more than 20%, large cap growth and tech stocks sank deeper into bear market territory. The only place there was positive returns in Q2 was in short-term Treasury bills.
1. Fixed Income Market Review – Gavin reviewed the Fixed Income Market, noting that total returns for each sector were all negative. He noted that asset-backed securities was the only sector that was close to breaking even, but was still down about 1% to 1.5%
 2. Performance Analysis – Investment Grade Corporate had very small detractors from performance. High Yield Corporate detracted from performance. Emerging Markets also detracted, but only a small amount. Agency Residential Mortgaged-backed Securities (RMBS) were a little bit into the positive. Non-Agency RMBS was a detractor from performance. Asset-backed Securities contributed slightly to the positive.
 3. Performance Summary – Overall, it was negative across the board with the quarter ending with a -3.51% return compared to -2.93% as the benchmark. The Year-to-Date also underperformed at -8.22% compared to the -7.48% benchmark. Looking over a longer period of time, at the 3-, 5-, 10- year and since inception, Sean Banai and his team have outperformed the benchmark. Gavin noted that Fixed Income has been a difficult place to be in the last six months.
 4. Portfolio Characteristics –
 - a. The performance attribution shows what drove the performance within the portfolio. The allocation duration and the curve was a 0. Asset allocations within fixed income detracted from performance by 81 basis points year-to-date, and by 57 basis points for Q2. Security selection, which are the particular securities we elected to purchase in the sector contributed positively to the return.
 - b. Duration of the portfolio is 4.92, which is a little short of the 5.11 benchmark. The Average Quality of the portfolio is AA-. The Yield to Maturity is now at 4.48%, up from last quarter when it was at 3.5%, and at the end of 2021 when it was at 2%. Yields rising by about 250 basis points in 6 months explains the tough returns in the portfolio. As Yields have increased, the value of the bonds have gone down.
 - c. In quality comparison, the plan is higher in quality than the benchmark for the most part, with Treasuries/Cash being underweight.

5. Asset Allocation – Money was moved into Agency Mortgages, with a 4.6% change from the prior quarter, and we are allocating or rotating out of the other sectors, predominately out of High Yield and Investment Grade Corporates.

Gavin noted that this report is as of June 30, 2022, and that there has been some improvements during July. As of July 31, 2022, the Market Value, which is the value of all the bonds in the portfolio, was \$172.9 million, and the Book Value, which is the sum of all the participant balances in Stable Value, is \$182.5 million. The Market Value is less than the Book Value, which is not unexpected. In June, 2022, the Market to Book ratio was 92.74%, whereas in July, 2022, it came back to 94.75%, showing signs of positive movement. Just about all Stable Value portfolios in plans are grappling with a negative Market to Book ratio.

- C. Participant Communication & Education Update – Stacey provided the following update.

1. Personalized Messaging

- a. Save More Results – This campaign targets individuals that have not made a contribution change in six months, and resulted in an action rate of 14%, compared to other government plans at 11%. There are now 64 participants saving an average of 2.1% more per pay period and 234 participants saving an average of \$41 more per pay period. Doug commended Stacey and her team for the outstanding action rate of 14%
- b. Beneficiary Results – This message was sent to 146 participants that do not have a beneficiary on file, with 12 participants taking action after receiving the email.
- c. Diversification Results – This message went to 639 participants that the system identified as not being diversified and resulted in 24 taking action, which is 2 more than reported at the last meeting.
- d. Restart Savings – This campaign is sent to 373 individuals that were previously saving in the plan but have stopped contributions. As a result, 12 participants started resuming saving in the plan.
- e. Financial Wellness/Education – While the action rate stayed the same as last quarter, there were 5 more individuals that completed the financial wellness assessment, making it a total of 76 participants who completed the assessment after receiving the email.
- f. Birthday – This is a newer campaign delivered on the participant's birthday as a reminder to think about retirement and personal savings rates. The action that participants are being asked to take varies based on the age of the participant. 59% opened the email and 14% took action.

2. Participant Engagement

- a. Web/Mobile/ Call Center – 8% of all engagements are from the Call Center, 17% from the Mobile Application, and 35% are from the Web.

46% of participants have opted into e-delivery and 52% have completed the web registration, showing significant growth from February, 2021, when there was only 31% of participants that opted for e-delivery.

- b. myOrangeMoney – Monthly retirement income tool available on the mobile app and website. 30% of those who viewed MyOrangeMoney engaged with the tool and 16% took action after using the tool. 30 participants are saving an average of 3.1% more and 113 participants saving an average of \$20 more per pay period. 27 participants changed a fund allocation, 2 enrolled in a managed account and 1 rolled money into the plan.
- c. Personal Financial Dashboard – This is a holistic planning tool available on the website. 84 participants used the dashboard with 8% taking action.
- d. Personalized Video – Similar to the automated messaging, this video is targeted based on the audience. 149 participants viewed the video, 55 clicked on the call to action and 15 took action after viewing the video.
- e. Financial Wellness – 93% of participants completed the assessment, compared to Voya's Book of Business at 89%. On scale of 10, participants feel about an average of 6.3 about their current financial situation, which is the same average as Voya's book of business. 53% have a finance confidence of 7 or more. Participants are asked about protection (insurance), spending and savings habits, emergency funds, retirement, debt, and other financial goals. The participants are less confident in protection and more confident in debt compared to Voya's book of business.

Stacey announced that Honolulu won the NAGDCA 2022 Leadership Recognition Award for COVID-19 Response – Participant Engagement & Communication.

3. Communication Strategy and Results

- a. New Year Checklist Campaign – This campaign was sent in February to encourage participants to give their account a checkup, opt in to e-delivery and add a beneficiary. It was emailed to 2,846 participants, 61% opened the message, with 38 unique clicks. Stacey noted that going forward, this checklist will be mailed as well as emailed to participants.
- b. Catch Up Campaign – This campaign was sent in April to remind participants who are 50 and older to maximize their contributions by taking advantage of the catch-up contribution feature. Stacey noted that this campaign will be pushed up in the schedule next year and will be sent in January rather than in April. This year, the campaign was emailed to 1,089 participants and resulted in 6% unique clicks. For the City's plan there was a response rate of 6.5% or 149

individuals increase their contribution, and for the BWS plan there was an 8.6% response rate or 16 individuals who increased their contributions. Stacey also reported that as of May, 2022, there are 405 participants utilizing the catchup contribution feature.

- c. e-Delivery – This campaign was mailed in April to encourage participants to access their accounts online and opt in to e-Delivery. As a result, there were 642 participants that signed up for e-delivery, which is an outstanding response rate of 23%.
- d. Beneficiary Campaign – This campaign is sent to participants that did not have a beneficiary on file. It was emailed to 113 participants and mailed to 285 participants and resulted in 47 adding a beneficiary.

Deirdre and Paul Hackleman (Paul) noted the discussion from the recent 457 University of ensuring participants know well in advance of their opportunity to take advantage of special catch up provisions, including the 3-year catch up. Paul commented that participants will have to start planning for the catch up 4 to 5 years prior to their retirement. Nola clarified that the current campaign schedule includes information regarding the age 50+ catch up, and that a new campaign regarding the more complicated 3-year catch up should also be included. Paul added that if legislation is passed this year, there may be an additional age 60+ catch up provision added. He further noted that it is important for plan sponsors to distinguish each of the catch up provisions, including the parameters and how they work. Nola reiterated the importance of advanced notice for planning purposes as well as reminder notices as participants get closer to the time to take action. Gavin stated that the Voya team will develop a plan to communicate to the appropriate groups and bring back a recommendation in the November meeting. Paul also suggested for Voya to determine a method for measuring the effectiveness of the campaigns. Nola stated it may be helpful to provide a gap analysis between what the participant saved and the dollar amount they could have maxed out if they took advantage of the catch up provisions.

On a motion duly made by Nola Miyasaki, seconded by Michael Golojuch, and unanimously carried, the Committee accepted the Voya Report as presented.

D. Other Issues

Chair asked Voya to provide an update on the \$500,000 return to participants. Gavin stated that on July 1, 2022, the 30-day advanced notice was mailed to participants announcing the reimbursement to their accounts based on their pro rata balance. On July 28, 2022, Voya received \$500,000 from the City, and on August 1, 2022, Voya processed the credit and applied it into the participant accounts. The transaction is complete with the money returned to the participants in the plan.

VI. NFP CONSULTING REPORT – Information/Action

A. Watch List Update – Bill explained that twice a year, NFP provides a comprehensive investment review and during the other two meetings of the year, NFP covers the watch list only. He provided a Q2 Market Review that showed a dramatic drop of -20% for the year-to-date returns for the U.S. Equity Markets, -18.4% for the International Equity Markets, and Fixed Income is -10%. Bill also highlighted growth vs. value performance over the past 10 years and the yield curve as it compared to one year ago. He noted that Commodities has the best year-to-date asset class return, which is unusual. Bill summarized the S&P 500 Returns after Bear Markets, noting that the market returns almost every time and the importance of staying the course. Bill also briefly explained the scorecard methodology and the requirements of the investment policy.

1. American Funds Growth Fund of America R6 scored a 6 for the fourth consecutive quarter. Bill explained that the problem with this fund is that a handful of tech funds (Apple, Microsoft, Amazon, and Google) are in the benchmark. There are 10 different portfolio managers for this fund, but if a fund gets more than 5% concentration, it loses its diversified status, which the portfolio managers do not want to lose. Although this is a good fund, it should remain on the watch list.
2. Principal Midcap Institutional – For the last three quarters, this fund scored a 7. For a fund to be removed from the watch list, it will need an acceptable score for 4 consecutive quarters. This fund is recovering nicely, but should remain on the watch list.
3. American Funds Europacific Growth Fund – This fund scored a 6 for the third consecutive quarter. If this fund remains on the watch list next quarter, Vince Learned (Vince) may bring replacement fund considerations for the November meeting. This fund should remain on the watch list.
4. American Funds Capital World Growth and Income Fund – This is a global equity fund. This is the third consecutive quarter the fund scored a 6, and will likely be another fund for which Vince will bring replacement funds for consideration in the next meeting. This fund should remain on the watch list.
5. PIMCO Real Return Institution – This is a Treasury inflation protection security that scored a 9 most of last year until this past quarter where it scored a 6. With inflation, this fund should perform well, but with a current score of 6, this fund should be placed on the watch list.

NFP's Summary of Consideration recommends that watch list include the American Funds Growth Fund of America R6, Principal MidCap Institutional, American Funds Europacific Growth, and American Funds Capital World Growth, and PIMCO Real Return Institutional.

On a motion duly made by Douglas Chun, seconded by Michael Golojuch, and unanimously carried, the Committee accepted and approved NFP's Consulting Report including the Watch List as listed in the Summary of Considerations.

- B. Legislative and Regulatory Update – Bill reported that the current version of Secure Act 2.0 is in conference committee and is expected to go to the President's desk. Although the language in the Act may change in the Conference Committee, NFP believes the language that removes the first of the month rule, adds another catchup provision for those over the age of 60, and raises the age for the required minimum contribution will remain. This bill passed the House of Representatives almost unanimously, with only 5 votes against it.

In Hughes v. Northwestern University, a case study in the importance of managing your fiduciary responsibilities, the United States Supreme Court found in favor of the participants. The Court found that Northwestern failed to monitor and control recordkeeping fees that resulted in unreasonably high participant fees, offered investment options of the retail share class that had higher fees when institutional share classes with lower fees were available, and offered too many investment options which confused investors and resulted in poor retirement planning and behavior.

- C. Other Issues – Gavin stated in the recent 457 University there was discussion about having mutual funds in the plan with no revenue sharing for the lowest potential expense for the participants. There are 3 funds in the lineup that still have revenue sharing, one being the Virtus Ceredex Mid-Cap Value Equity. This fund has an expense of 99 basis points and provides 50 basis points in revenue share that comes to Voya. Voya has an automated process every month where the revenue share is sent back to the participants. With the 99 basis points expense ratio and the participants getting the 50 basis points back, they are effectively paying 49 basis points. There is a zero revenue share class, but the expense on the zero revenue is 79 basis points. It makes more sense to keep the fund with the revenue share. This is the same for Principal Mid-Cap, where the participant is better off on a net basis in the institutional class than the zero revenue class. The third fund is the Dodge & Cox International Stock, which has a net 52 basis point expense which matches exactly with the zero revenue class, so there would not be a benefit to move at this time. Bill recommended Voya coordinate with Vince for the November meeting.

VII. OTHER BUSINESS

NAGDCA Leadership Award for COVID-19 Response – Bill commented that this award is a big deal as it hard to get a NAGDCA awards now and gave kudos to the Committee and Voya.

VIII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Laura reviewed the quarterly expense report. The quarter started with a balance of over \$600,000. Voya's checks for the first two quarters have not yet been received, but that is because they were only recently sent a letter with the amounts to be reimbursed for this year, which will be \$43,750 per quarter. The expenses included \$12,375 to NFP for consulting services, \$2.60 in postage for forwarding fees for undeliverable envelopes for the 2021 election, \$500,000 return to plan participants, and \$303.72 for UV umbrellas and vacuum insulated food jars for participant giveaways during the National Security Retirement Month sessions. The giveaway from last years seemed to have improved participation in the sessions. The ending balance is \$87,961.36

Doug asked if the ending balance is sufficient for the anticipated expenses. Laura stated that it is given that the \$175,000 that will be received for the year, and that the reserve funds are being built up.

On a motion duly made by Michael Golojuch, seconded by Douglas Chun, and unanimously carried, the Committee accepted and approved the Committee's administrative expenses report as presented.

IX. EXECUTIVE SESSION (as required)

The Committee did not go into Executive Session.

X. NEXT MEETING DATES – Information (subject to change)

Fourth Quarter – Mayor's Conference Room

Wednesday, November 2, 2022, 1:00 p.m. – 3:30 p.m.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned at 11:52 a.m.

Respectfully submitted,

Laura Shimada
Secretary