

**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, November 20, 2020, at the Mayor's Conference Room, Honolulu Hale, 530 South King Street, 3rd Floor, City Hall, Honolulu, Hawaii.

- Present:** Manuel T. Valbuena (BFS Deputy Director & Committee Member/Chair Alternate for BFS Director Nelson H. Koyanagi, Jr.)
Carolee Kubo (Director of Department of Human Resources (DHR) & Committee Member) (by webex)
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 Roy K. Amemiya, Jr.) (by webex)
Douglas Chun (Committee Member) (by webex)
Denise Peterson (Committee Member) (by webex)
Michael Golojuch (Committee Member) (by webex)
- Excused:** Nelson H. Koyanagi, Jr. (Director of Department of Budget and Fiscal Services (BFS) & Committee Chair)
- Staff:** Kelli Nishimura (BFS Acting Deputy Director)
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) (by webex)
- Guests:** Bill Tugaw (Managing Director – NFP Retirement (NFP) (by webex)
Vince Learned (NFP Senior Plan Advisor) (by webex)
Gavin Gruenberg (Voya – Senior Vice President – Institutional Clients) (by webex)
Jared Nakamoto (Voya – Hawaii Case Manager) (by webex)
Stacey Laxton (Voya – Participant Engagement Consultant) (by webex)

Manuel T. Valbuena (Chair) read a statement on public participation and testimony to comply with Social Distancing Requirements set forth in Governor Ige's Fifteenth Supplementary Proclamation issued on November 16, 2020 and Mayor Kirk Caldwell's Emergency Order No. 2020-29 dated October 20, 2020.

I. CALL TO ORDER

With quorum present Manuel T. Valbuena (Chair) called the meeting to order at 9:32 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 Carolee Kubo, seconded by Michael Golojuch, to approve the September 18, 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. Quarterly Report

The following is a summary of Voya's quarterly report provided by Gavin Gruenberg (Gavin) for the period of January 1, 2020 to September 30, 2020.

1. Client Health Review

- a) Plan Statement – Gavin summarized, noting that plan assets, number of participants as well as employee contributions to the plan were up from January, while distributions were down so a positive result for the plan overall. In the side-by-side comparison of the first nine months of 2019 and 2020, there were \$25.5 million in contributions in 2020, which compares favorably to last year. Distributions are about even with last year and there has been strong dividend activity of \$7.6 million. As of September 30, 2020, plan assets were at \$776 million. As of close of market on November 19, 2020, the portfolio total is up to \$820 million.
- b) Participation – We started the year with 9,475 participants and had 289 new accounts, 249 closed accounts, and ended with 9,515 participants. The participation rate is at 88.7% which is very strong for a voluntary plan. As a point of clarification, the nine individuals who show up as unknown is because they have designated their trust as their beneficiary.
- c) Deferral Summary – This summary only applies to percentage contributions. There are 725 individuals using percentage contributions, compared to 635 from last year. The percentage contribution participants have an average contribution rate of 9% for the plan which compares very favorably with the industry benchmark of 6.8% and the Voya plan average of 5.9%.

- d) Participant Engagement – Continued increase in the usage of the mobile app, currently at 21%, up from 18.5% for last year. There have been a total of 1,136 unique participants using the mobile app, with a total of 1,042 transactions. The only thing available on the internet that cannot be done on the mobile app is distributions. The average user of the myOrangeMoney tool is saving 30% more than a nonuser.
2. Plan Activity
- a) Activity Highlights - \$25.5 million contributed from 6,266 individuals. There have been about \$30.1 million in distributions with 819 accounts. Recent years have had negative cash flow, but the trend is going in the right direction as we are continuing to grow contributions in the plan. Traditional 457 deferral is \$20.5 million more than last year. Roth is up significantly at \$4.97 million vs. \$4.46 million from last year. There were 140 individuals that have either decreased or stopped their contributions. There have been a handful of death claims, not as much as last year, but still almost \$1 million. Hardships/unforeseen withdrawals had big jump to \$3.9 million from \$195,000 last year, with the vast majority being Coronavirus Related Distributions (CRDs). Lump sums withdrawals is at \$23.2 million, which is \$2 million less than last year. Same trend of growth in the Roth option. For the first time, we saw a decline in the pre-tax deferral option, down to 5,144 from 5,284 participant, perhaps due to the tough economic times.
 - b) Current Participation and Enrollment Statistics – Total participants actively deferring as of September 30, 2020 was 5,989. Gavin noted 321 new enrollments with an average deferral rate of 7% for those doing a percentage and \$122 for those doing a flat dollar amount. The average balance as of September 30 was \$81,562, which shows growth in the average balance.
 - c) Diversification – Gavin noted that the average number of investment options per participant account is 3.4 options if we include all of the asset allocation funds which are fully diversified. Looking at the average number of investment options without the asset allocation funds, the average number of options is 4.9, which is almost double the benchmark of 2.7 funds. There are almost 3,500 participants in the target date or asset allocation options. There are 686 participants who are 100% invested in stable value, compared to 668 from last year.
 - d) Managed Accounts – There is an error in the report. The specific number of participants in managed accounts is actually 453, not 440. There were some that cancelled their managed accounts, but that is not dissimilar to what is seen across all plans.
3. Plan Investment Review
- a) Diversification of Participant Assets and Contributions – Gavin reported that about 17% of the plan is in one of the target date funds or risk based funds. He noted that 34% of the new contributions are

going to one of the target dates or asset allocation funds. Almost 21% of the funds are in stable value, which is nearly unchanged from end of 2019. There 20 individuals in the self-directed brokerage which is at \$867,000, with one additional participant now utilizing TD Ameritrade vs. year-end 2019.

B. Stabilizer Update

Gavin provided a summary of Voya's stable value portfolio report for the period of January 1, 2020 to September 30, 2020, and noted portfolio returns are strong versus the benchmark.

1. Performance Summary – Gavin reported that for the third quarter, we exceeded the benchmark by about 65 basis points, for year-to-date by about 36 basis points. There have been consistent excess returns versus the benchmark. There were nominal moves within the quarter in regards to asset allocation, moving out of agency mortgages and investment grade corporates and into asset back securities, high yield and treasuries. Market value is at \$187 million versus the book value of \$178 million, which shows an almost 5% premium (market to book ratio).
2. Portfolio Characteristics – The Yield to Maturity is down at 1.57%. If yields in the market continue to remain depressed, we will start to see a decline in the crediting rate for participants.

C. Participant Communication & Education Update

The following is a summary of Voya's quarterly Participant Communication & Education report provided by Stacey Laxton (Stacey) for the period ending September 30, 2020.

1. Personalized Messaging – Stacey explained that we reached 1,200 participates, 780 opened email, 114 clicked thorough, with 90 taking action. The Beneficiary Journey was sent out to 93 participants and 10 participants or 19% added or changed a beneficiary. The Diversification Journey was sent to 351 participants with 3% taking action. The Stopped Savers Journey was delivered to 217 individuals, with 8 participants resuming contributions after opening the email. The Financial Wellness/Education Journey results are from June to November and 41 participants or 2% completed the assessment. From the Save More campaign, we had close to \$60,000 additional contributions added into the plan as well as additional \$10,000 for those that had stopped contributing and then started back up again.
2. Engagement of Active Participants – We have about 41% of active plan participate that have engaged, year-to-date. Call center was at about 9%, the mobile app was at 12% and web engagement is really up at 35%. E-Delivery is at 30%, but web registration, which is at 46%, is an area that we still need to focus on in 2021. There are about 3,500 participants that are logging into myOrangeMoney, with a 19% action rate. This means 31 participants are saving an average of close to 3% and 109 participants are saving an average of \$44 more per pay period. The Personalized video has an 11% action rate. Ten participants are saving an average of \$113 more per pay period. 307 participants started the financial wellness

assessment, 288 completed the assessment, and 242 viewed the dashboard.

3. Gavin noted that there were no changes in 2021 contribution limits for the 457 plan, which stayed at \$19,500 and the Catch-up Limit also stayed at \$6,500.

D. National Retirement Security Week

Jared Nakamoto (Jared) provided a summary of Voya's National Retirement Security Week. There were four online presentations and a total of 60 people. Last year had a record high of 135 people attending the sessions. The feedback showed it was hard for the retirees to get online and would like to have in-person sessions. Laura noted that there was a change in City policy that requires employees to login from their own personal devices to attend. Only 11 people responded to the survey and all won the water flasks.

- E. Other Issues: Coronavirus Related Distributions (CRDs):** Jared provided a summary of Voya's Coronavirus related activity. He noted a lot less people requested a CRD since the last meeting. A couple of people asked for their second distribution. The hardships are generally because of loss of spousal income or loss of overtime or special duty for fire and police.

V. NFP CONSULTING REPORT – Information/Action

- A. Legislation and Regulatory update – Bill Tugaw (Bill)** reported several updates.

1. The House Ways and Means committee introduced a new bill called the Securing a Strong Retirement Act of 2020, being called Secure 2.0 Act. The Secure 2.0 Act is trying to open up collective investment trusts to 403(b) plans. 403(b) plans can only use annuities or mutual funds. Secure 2.0 is also eliminating the first of the month rule, which we have previously talked about being in the Portman-Cardin bill. In Secure 2.0, participants can make qualified charitable contributions up to \$130,000 beginning at age 72 and half. The Secure Act from last year moved the required minimum distribution (RMD) age from 70 and half to 72, Security 2.0 is going to move the RMD to age 75. New over age 60 catch up contribution of up to \$10,000 in addition to the current age 50 catch up. Also, defined contribution plans can trade student loan repayments as elective deferrals for matching contributions. The City plan does not match any contributions so employees with big student debt would not be able to use this provision.
2. The Government Accounting Statistics Board (GASB) came out with Statement 97 which requires governmental deferred compensation plans to be classified as a pension plan or other employee benefit plan for reporting periods after June 15, 2021. An implementation guide has not yet been issued.

- B. Semi-Annual Fund Review – Vince Learned (Vince)** provided the fund review for Quarter 3 (July to September 2020).

1. Market Review –

- a. Vince noted that we had a pretty good Q3 following a very robust recovery in Q2. He said that as of about a week ago, the U.S. markets

were up about 10.9% year to date, international markets were down 3.3%, emerging markets were up 7% and fixed income is steady at 6.8%. Unemployment hit a high of 14.7% in April 2020, and has gone down every month since. It was at 6.9% in October with 640,000 jobs added.

- b. The GDP for Q3 was at 33.1% annualized rate, which is high and above the consensus at 32%. Big pharmaceutical companies are coming out with a COVID-19 vaccine but it may be late spring or early summer until we turn the corner with Covid. We're also entering the winter flu season so all of that could impact the Q1 GDP if we see shut downs or partial shut downs.
 - c. On the Market Kaleidoscope, year-to-date large growth is up 24% and small cap value is down 21%, so that's a 45% difference. Diversification is key because if you have a balanced index, then you're never going to be at the top of returns but you're also never going to be on the bottom. The balance index is up 5% year to date through September 30, 2020 so given what's transpired in 2020, participants should be satisfied with a positive 5% return for the year. Vince showed a chart of the quarter that showed the growth of a hypothetical \$10,000 investment in the S&P 500 index over time from 1933. But it shows that stocks have trended higher regardless of the Party in office and said participants should not make huge changes to their portfolios just because a certain candidate occupies the White House.
2. Watch List Update – Vince explained that the scorecard methodology looks at five years of rolling data and 10 metrics. Scores of 7 or better would be acceptable or good, scores of 5 or 6 would be a watch list candidate, and scores of 4 or below would be a removal candidate. Funds on the watch list for an extended period, typically 4 consecutive quarters or 5 of the prior 8 quarters, would cause a fund to be considered for removal. Vince noted that our lineup of funds is looking good and there's only 1 fund currently scoring a watch list score and 2 other funds that scored a watch list score on 1 of the prior 4 quarters.
- a. American Funds Growth Fund of America: This fund is scoring a 6 for the second consecutive quarter. It lost two risk return metrics and two peer group metrics but this fund has a good track record and NFP wants to see how it performs over the next couple of quarters. NFP recommends that this fund stay on the watch list.
 - b. Principal Mid Cap Institutional: This fund was scoring a 10, dropped to a 6 last quarter and is back up to a 7, which is an acceptable score. NFP recommends this fund remain on the watch list because it had a watch list score in the previous quarter.
 - c. PIMCO Real Return – This fund now has a score of 9 which is up from the prior quarter's score of 5. Despite the previous score of 5, the peer group rankings have been really strong for quite some time and it scored a 5 because of some narrowly missed metrics. Those metrics have now turned the right way and the score is more in line with what

we would expect to see given that this fund is in the top 8% of its peer group. NFP recommends this fund remain on the watch list because it had a watch list score in the previous quarter.

On a motion duly made by Michael Golojuch, seconded by Doug Chun, and unanimously carried, the Committee voted to accept the watch list as recommended.

At 11:06 am, Voya and NFP were excused from the meeting.

VI. OTHER BUSINESS – Information/Action

Amend Agenda – Laura explained that we need to amend the agenda to add Voya's contract extension as item B under other business because it was not placed on the agenda. She noted that under OIP rules, since we posted the agenda without the item, we need to have the Committee make a motion and vote to add the item to the agenda.

On a motion duly made by Carolee Kubo, seconded by Michael Golojuch, and unanimously carried, the Committee voted to amend the agenda to add the Voya contract extension.

- A. 2021 Election Update - Jenny Tobin (Jenny) provided the update and noted that we emailed three prospective vendors in October requesting proposals to conduct the 2021 election. Only two of the three vendors responded, SMS and Ward Research. Jenny summarized the two proposals and said that Ward Research also provided costs should the envelope weigh more than 1 ounce or was thicker than 1/4 of an inch. She noted that SMS' costs would also increase if the envelope weighed more than 1 ounce since the scope of work stated that the envelope would be under 1 ounce. The total amount for both phases for SMS was \$29,586 and Ward Research was \$29,036.63. Jenny concluded that the two proposals seemed to be pretty comparable with slight differences in how each company would process the mail and the voting to ensure each participant could only vote once. She also noted that the vendors were asked to provide costs by phases because we will not need to hold the election in phase 2 if we don't have sufficient candidates to require an election.

Doug Chun disclosed a possible conflict of interest and stated that he was hired by and worked directly for the founder of Ward Research 30 years ago before becoming a government worker. Doug clarified that he has not had any contact with the Ward Research in 30 years but wanted to make full disclosure. The Chair thanked Doug for the disclosure and said he did not see any conflict since it's been such a long time since he had contact with the prospective company. Lynn, representing Corporation Counsel, also stated that since it's unlikely that Doug had any dealings with the company for something like this project, there does not appear to be a conflict of interest.

Laura noted that staff would recommend going with Ward Research because their Phase 1 cost is lower and we may not need to go to a Phase 2 and Ward Research has conducted the past 2 elections for the Committee and there have not been any problems.

On a motion duly made by Michael Golojuch, seconded by Denise Peterson, and unanimously carried, the Committee approved awarding the contract for the 2021 deferred compensation committee election to Ward Research.

Jenny that stated drafts of the candidate application, the questions and answers, and the initial notice of election were provided to the committee and the drafts can be revised if needed. She also clarified:

1. That the screen cleaner gift will be mailed to all participants whether or not they are eligible to vote.
2. That ballots would only be sent participants that are eligible to vote.
3. That the candidate applications had to be signed and mailed in and the term would be 5 years.

- B. Voya Contract Extension – Laura explained that the initial service agreement was for 5 years with two additional 1-year extensions. At the November 2019 quarterly meeting, the Committee approved the first one-year extension which ends on March 30, 2021. The Committee is asked to approve the second 1-year extension of the contract which would run from April 1, 2021 to March 31, 2022. Michael Golojuch (Mike) suggested the Committee also think about renegotiating the contract in the interim instead of going out for another RFP.

On a motion duly made by Carolee Kubo, seconded by Michael Golojuch, and unanimously carried, the Committee approved the second extension of the Voya contract for the period of April 1, 2021 through March 31, 2022.

- VII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action** – Laura reviewed the quarterly report and noted that the quarter started with a balance of \$382,164.91 and received the second quarter \$55,000 reimbursement from Voya. Laura reviewed the \$21,731.50 expenditures which included the Q3 payment to NFP of \$12,375.00, the NAGDCA Connect registration fee of \$400.00, Pristine Screen cleaners for \$7,891.50, and IFEBP membership dues for 2021. She noted that the ending balance is \$415,433.41.

On a motion by Carolee Kubo, seconded by Michael Golojuch, the Committee unanimously approved the Committee's administrative expenses.

VIII. EXECUTIVE SESSION (not required)

The Committee did not go into Executive Session.

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

All are tentative dates as they are subject to new committee chair approving the

Annual and First Quarter – Mayor’s Conference Room

Friday, February 19, 2021 – 8:00 a.m. - 12:00 pm

- Annual Meeting: 8:00 a.m. – 9:55 a.m.
- First Quarter – 10:00 a.m. – 12:00 p.m.

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

Laura announced that this is the last meeting for the appointed members and thanked them for their assistance and work on behalf of the Deferred Compensation Plan participants. She noted that appointed members may be held over in the interim.

XI. ADJOURNMENT – There being no further business, the meeting was adjourned at 11:27 a.m.

Respectfully submitted,

Laura Shimada
Secretary