

**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, September 18, 2020, at the Department of Budget and Fiscal Services Conference Room, 530 South King Street, Room 208, 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) [joined at 9:40 a.m.]
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: Florencio "Bugs" Baguio Jr. (Chief, Industrial Safety and Workers Compensation Division, DHR & Committee Member Alternate for DHR Director Carolee Kubo) (by webex)
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)
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 Twelfth Supplementary Proclamation issued on August 20, 2020 and Mayor Kirk Caldwell's Emergency Order No. 2020-26 dated September 8, 2020.

I. CALL TO ORDER

With quorum present Manuel T. Valbuena (Chair) called the meeting to order at 10:37 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 minutes of the Special Committee Meetings held on April 6, 2020 and May 8, 2020 and the minutes of the June 19, 2020 Quarterly meeting.

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 Market Review report provided by Gavin Gruenberg (Gavin) for the quarter ending June 30, 2020.

1. Client Health Review

- a) Plan Statement – Gavin summarized and noted that plan assets were up in the first six months of the year and the number of participants as well as employee contributions to the plan were also up while distributions were down so a positive result was indicated for the plan overall.
- b) Plan Statement – We began the year with about \$756 million in the plan, about \$17.5 million in contributions, \$18.9 million in distributions, and \$2.96 million in dividends. But due to the pandemic we had market depreciation in the first half of the year, about \$19.3 million in market loss ending Q2 at \$738 million. Gavin noted that the markets have rebounded and as of yesterday's market close, the plan's assets are at \$778 million and with a positive return in the portfolio for the year, up about 3% since January 1, 2020.
- c) Participation – We started the year with 9,475 participants, had 205 new accounts, 174 closed accounts and ended with 9,506 participants. The plan now has 3,016 terminated employees with 174 closed accounts which is positive because the plan is retaining the assets of terminated employees in the plan, even after they retire or separate from service. The participation rate is at 74% which is really a stellar number for a voluntary plan without any employer matching.
- d) Deferral Summary – This summary only applies to percentage contributions. There are 696 individuals out of over 6,000 people who are actively contributing by percentage or about 11% of the total participants. We are seeing more usage of percentage over time as a lot of our new enrollments are electing to go with a percentage contribution. The percentage contribution participants have an average contribution rate of 8.8% for the plan which compares very

favorably with the industry benchmark of 6.8% and the Voya plan average of 5.9%.

- e) Participant Engagement – Everything is being done virtually due to the COVID pandemic and there was a lot of usage of the digital tools during the first two quarters with 2,643 unique participants using the website with almost 57,000 interactions. There were almost a 1,000 people who used the mobile app with a little over 29,000 inquiries, 303 using the VRU (after hours call center) and 452 calling customer services.

Over the past 3 years, participants are steadily increasing use of the mobile app, from 15.64% in 2018 to 22.58% in 2020.

There were 597 unique individuals who engaged with Voya either using the myOrangeMoney tool, the financial dashboard tool or Morningstar and that resulted in 173 participants taking some type of action. Individuals using myOrangeMoney, viewing the dollar bill, and moving the sliders are saving more than anyone else so if we can get participants to engage with Voya, then they will tend to save more.

2. Plan Activity

- a) Gavin summarized and pointed out that the plan's current net cash flow is \$17.5 million in contributions for the year which is an increase from same time period last year and a pretty significant decline in distributions from \$22.1 million last year and \$18.9 this year. We're almost back to that break-even point on the net cash flow basis.
- b) Activity Highlights – The plan continues to see an increase in Roth contributions with \$3.26 million in contributions so far this year versus \$2.9 in the same period last year. For distributions, we had a decline in the number of death claims and hardship/unforeseen withdrawals went up almost 5 times more, from \$136,000 to \$746,000. That amount includes the Coronavirus Related Distribution (CRD) distributions. Under Other Activity section, 57 participants transferred assets into the plan, dividends were positive, and Voya's recordkeeping fees showing a net positive of \$2.96 million.
- c) Current Participation and Enrollment Statistics – Gavin noted we have a 74% participation rate, with 240 new enrollments with an average deferral rate of 6.1% for those doing a percentage and \$103 for those doing a flat dollar amount. The average balance as of June 30 was \$77,708 and it increased to \$80,609 as of yesterday so a nice increase in average balance, even with the new enrollments in the plan that started with a zero balance.
- d) Diversification – Gavin noted that the average number of investment options per participant account is 3.6 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 5.0, which is almost double the benchmark of 2.7 funds. Although there are 4,454 participants

utilizing one investment option, 3,478 of those are in the target date or asset allocation options. There are 692 participants who are 100% invested in stable value, over time that's drifted down, but there's been a slight increase with the market downturn. We did look at this last year in terms of demographics, does it make sense for the individuals that have chosen to be a hundred percent stable value and are they in appropriate age groups. We did a communication to that group through our communications team last year and that is something we will watch to see if participants are making a wise choice on their sole investment.

- e) Managed Accounts – There was a reduction in the number of managed accounts from 470 to 452 with 10 new participants and 28 who opted out of a managed account. There is about \$45 million in assets which is 6.11% of overall plan assets.

B. Plan Investment Review

- 1. Diversification of Participant Assets and Contributions – Gavin reported that there is over \$123 million in target date funds and asset allocation funds which is 16.6% of the plan. He noted that 33% of the new contributions are going to one of the target dates or asset allocation funds. Almost 22% of the funds are in stable value and this has been fairly consistent over the last few quarters. This percentage is a little less than what we typically see in a governmental plan which is good because it shows that participants are taking advantage of the returns in the equity market. There are 20 participants using self-directed brokerage accounts with TD Ameritrade. This is a slight increase over the previous year.

C. Stable Value Report

Gavin provided a summary of Voya's stable value report for the quarter ending June 30, 2020.

- 1. Performance Summary – Gavin reported that second quarter portfolio return was 4.22% versus 2.13% by the benchmark. All of the different elections that Sean Banai and his team made in terms of asset allocation contributed positively to performance during the quarter. The outperformance was 200 plus basis points over the benchmark which is not common for stable value returns. The significant outperformance during the quarter brought the plan closer to back to even with the benchmark for the year. Over time, the plan has continued to outperform the benchmark in the 3-, 5- and 10-year periods so excellent results.
- 2. Portfolio Characteristics – The Yield to Maturity is 1.72% for the quarter so it continues to drift down. The crediting rate for participants is 2.65% and we will likely see that begin to drift downwards over time given that the yield in the portfolio is much less than that. We do have a fairly significant positive delta in the market value versus book value which means that there's a premium in the portfolio right now and that's why the crediting rate for participants is able to be above the actual yield in the portfolio. As of July 31, 2020, the market value of all the bonds in the portfolio is a little under a \$188 million and the book value is a little under \$178 million,

which is a 105.6% market to book ratio. This may be an all-time high for the portfolio going back to 2007.

D. 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 June 30, 2020.

1. Personalized Messaging – Stacey explained that personalized messaging focuses on five key areas: saving more, restart, diversification, beneficiary and financial wellness. She noted that Voya stopped sending personalized messaging at the start of COVID and started again in June. Since May 2020, the Save More Journey campaign saw 87 participants increasing their savings rate, or an action rate of 11%. 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 340 participants who had less than 2 funds in the plan had 5 participants or 1% diversify their account. The Stopped Savers Journey did not change since May with 8 participants or 8% resuming contributions. The Financial Wellness/Education Journey results are from June to September and 41 participants or 2% completed the assessment.
2. Engagement of Active Participants – Active participant engagement in Q2 was: Call center was up by 2%, Mobile App usage declined 2%, Web usage was the same at 34%, E-Delivery usage was down 1% but an E-Delivery campaign was just rolled out in mid-August and Web Registration declined by 1%. The overall participant engagement compared to all of Voya's tax exempt government plans is better.
3. 2020 Objectives – Stacey reviewed the 2020 targeted communication campaign objectives. She noted that the National Retirement Security campaign has been extended for the whole month of October instead of a week.

E. Coronavirus-Related Distributions (CRD)

Jared Nakamoto (Jared) provided a summary of Voya's Coronavirus-Related activity ending in mid-September 2020. The CRD withdrawals have increased up to a little over \$3.4 million with a total of 111 distributions. The average amount withdrawn is about \$31,000 per person on average. Ten people have taken out the maximum amount of \$100,000.

The local Voya office reached out to everyone who took a CRD distribution and found that about 49% were firefighters who lost their second job, most in hotels or airlines. The next largest group were police officers who lost overtime or and special duty hours and last group were EMS employees who lost overtime and extra shift hours. Voya also contacted the participants who took out the bigger lump sum amounts to make sure they understand the CRD requirements and that the amounts are taxable if not repaid.

V. NFP CONSULTING REPORT – Information/Action

A. Semi-Annual Fund Review

1. Watch List – Bill Tugaw provided the report. Bill noted that a couple of weeks ago the Templeton Global Bond fund was eliminated and the funds were migrated to the age appropriate target date fund and eliminated the DFA US Targeted Value fund and moved the funds to the American Century Small Cap Value fund. The Scorecard is reflective as of the end of Q2 but the report was run as of September 10, 2020 for a more accurate picture of the current portfolio. The portfolio is in great shape. The target date funds as a group are scoring 8 or 9.
 - a) American Funds Growth Fund of America – This is a fund that scored an 8 for the last four quarters but dropped to a 6. This fund periodically gets on the watch list because it invests heavier in international funds than most other large cap growth funds. This has been a fabulous fund but NFP recommends that this fund go on the watch list because it now scores a 6.
 - b) Principal Mid Cap Institutional – It has been scoring a 10 but is now a 6. Bill noted that the fund barely misses in some of the categories but the scorecard uses a binary system so if the item is a near miss, it doesn't really show in the score. NFP recommends that this fund go on the watch list because it is scoring a 6.
 - c) PIMCO Real Return Institutional – This fund has been on the watch list the last couple of quarters and is still scoring a 5. The portfolio manager recently left and this fund would normally get 2 points here but NFP is very comfortable with the way PIMCO manages these fund and NFP and is comfortable with leaving this fund on the watch list instead of recommending a change. NFP recommends that this fund remain on the watch list.

On a motion duly made by Carolee Kubo, seconded by Michael Golojuch, and unanimously carried, the Committee voted to adopt the watch list as recommended.

- B. Legislation and Regulatory update – Bill Tugaw (Bill) reported several updates.
 1. CARES Act – Bill noted that IRS has clarified and expanded the definition of who's eligible for Coronavirus Related Distribution (CRD) and "qualified individual" includes a spouse or household member who lost income.
 2. Government Accounting Standards Board (GASB) came out with GASB 97 which requires a 457 plan be classified as either a pension plan, or other employee benefit plan. This is supposed to be implemented after June 15, 2021 but there's been no implementation guide issued so not sure what it will entail.
 3. Portman-Cardin Retirement Reform Bill – He noted that this bill appears to be on hold as there are lots of things going on in Washington and upcoming elections. 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. NPF expects that this bill will be reintroduced in the 2021 session.

4. National Association of Government Defined Contribution Administrators (NAGDCA) Annual Conference – Bill notes NAGDCA has cancelled the conference and will be doing a virtual conference called NAGCDA Connect in October. It will be \$100 per person and they recommend that the committee participate.

At 11:37 am, Voya and NFP were excused from the meeting.

VI. OTHER BUSINESS – Information/Action

- A. Five Year Strategic Plan – Update provided by Florencio “Bugs” Baguio (Bugs) as Joan Bolte (Joan) had retired at the end of September 2020. Bugs noted that the document was submitted and finalized at the August 2019 Quarterly Meeting and the Working Group’s work was completed. However, Joan updated the plan and submitted it to the Committee before she retired. The changes are noted in red and some of the changes include the staggered terms for the elected Committee Members, the addition of the Coronavirus Related Distributions, and internal reconciliation of the budget. Laura reported that an Internal Control Analyst was working to reconcile expenditures going back five years using CH2ERPS. She noted that with three different ASOs (Administrative Service Officers) and different committees, the analyst was not able to reconcile everything to zero but was able to reach a point that was acceptable.
- B. 2021 Election Update – Jenny Tobin reported that we’re following the election time table that was previously provided to the Committee.
 1. Vendor Request for Estimate – A draft request for estimate using information from the last election was provided to the Committee for review. Jenny noted that the document was updated with current participant numbers based on the last report provided by Voya, diskette was changed to flash drive, and transmission of participant information via a secured method was added as an option for transmitting information.
 2. Mail Forwarding Service Endorsement or Return Service Endorsement – In 2017, we used the return service endorsement for Phase I and the return service endorsement for Phase II. For the 2021 election, we recommend using the “forwarding service” endorsement option. With the return service requested option, envelopes that can’t be delivered would be returned to us. If there is a forwarding address, then the envelopes are given to Voya to possibly update the participant information. With the forwarding service, the envelopes get forwarded as long as the Post Office has a forwarding address. The ones that don’t have a forwarding address are returned to us. There are some additional charges with both options and the forwarding option costs a little more if the forwarding address is more than one year old. Laura reported that

each returned envelope costs \$1.21 and the total amount paid in 2017 was about \$69 (for Phase II only). She noted that the cost was not that high and the items are time sensitive so the forwarding service will get the item to participants quicker. Jenny noted that if we use the forwarding option, then we will not know that a participant has a new address but participants are responsible to update their address with Voya.

3. Gift Item – Jenny noted that it is the Plan's 40th Anniversary and we want to send each participant a free gift that can be enclosed with the initial mailing about the elections. The gift is very small and can be easily enclosed in the envelope. It's a self-sticking cleaning cloth for your cell phone. We plan to have the envelope say free gift enclosed so participants will be more likely to open the mail. We're planning to order 10,000 screen cleaners at a cost of less than \$1 each. The screen cleaners will have our logo and a brief message such as save for retirement and will be on a customized backing that will mention our 40th anniversary. We're looking to spend about \$10,000 of the \$80,000 budgeted for education. We request approval from the Committee to purchase the item and to include it with the mailing to candidates.

On a motion by Michael Golojuch, seconded by Carolee Kubo, the Committee unanimously approved the recommendation to spend \$10,000 budgeted for education on the screen cleaner gift to be included in the mailing for the election.

4. Other Changes – Jenny reported that we are following the election time table from the previous election except that Voya will provide the vendor with 2 lists, one at the start of January and one after January 31. She noted that we wanted to start the process a little earlier and the bylaws require that participants are in the Plan by January 31 to be eligible to participate in the election.

Doug asked if we know how many potential vendors may be interested in participating in our member elections. Jenny said that we would send it out to the same three from the 2017 election but any suggestions for other vendors should be sent to her. Laura noted that she received another vendor name from the City Clerk and would provide the information to Jenny. The Committee approved the changes and authorized staff to proceed with the request for estimates.

5. Election Calendar – Jenny reviewed that the calendar:
 - a) October 1, 2020 – email the request for estimates to potential vendors
 - b) October 14, 2020 – receive their responses

- c) November 20, 2020 – at the quarterly meeting, the Committee will select the vendor
- d) November 21, 2020 to January 10, 2021 – work with vendor on the agreement and any confidentiality or other documents
- e) December 15, 2020 – Voya will generate the list and provide the list to the vendor by January 11, 2021
- f) February 1, 2021 – the vendor sends out the Phase I mailing
- g) February 26, 2021 – candidates submit their applications
- h) April 1, 2021 – Voya provides second list to vendor if Phase II is needed
- i) April 12, 2021 – the vendor sends out a postcard that informs participants about voting
- j) April 21, 2021 – the vendor mails out the ballots
- k) April 21, 2021 to May 14, 2021 – participants vote and submit ballots. The Committee decided to allow voting to start from April 21, 2021 instead of April 26, 2021 which is the date originally listed on the calendar.
- l) May 14, 2021 – voting ends

VII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action – Laura reviewed the quarterly report and noted that we started the quarter with \$392,760.85 and expended \$10,595, received refunds from NAGDCA for the 2020 Conference and ended with a balance of \$382,164.91.

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

VIII. NEXT MEETING DATES – Information

Fourth Quarter: Friday, November 20, 2020, 9:30 a.m. – 12:00 p.m.

IX. ANNOUNCEMENTS

Joan Bolte retired at the end of September and Alison Look was appointed by the Managing Director as to represent him as a committee member.

X. ADJOURNMENT – There being no further business, the meeting was adjourned at 12:06 p.m.

Respectfully submitted,

Laura Shimada
Secretary