

**CITY AND COUNTY OF HONOLULU
DEFERRED COMPENSATION PLAN COMMITTEE MEETING
MINUTES OF THE ANNUAL MEETING OF THE COMMITTEE**

The Annual meeting of the City and County of Honolulu Deferred Compensation Committee ("Committee") was held on Friday, February 21, 2020, commencing at 8:04 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)
Amy Kondo (Acting First Deputy Corporation Counsel & Committee Member designee for Acting Corporation Counsel (COR) Paul S. Aoki)
Carolee Kubo (Director of Department of Human Resources (DHR) & Committee Member)
Douglas Chun (Committee Member)
Denise Peterson (Committee Member)
Joan Bolte (Internal Control Chief Accountant & Committee Member designee by Managing Director Roy K. Amemiya, Jr.)
Florencio "Bugs" Baguio Jr. (Chief, Industrial Safety and Workers Compensation Division, DHR & Committee Member Alternate for DHR Director Carolee Kubo)

Excused: Michael Golojuch (Committee Member)
Manuel T. Valbuena (BFS Deputy Director & Committee Member Alternate for BFS Director Nelson H. Koyanagi, Jr.)

Staff: 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)

Guests: Ryan Ota (Deputy Corporation Counsel)
Bill Tugaw (Managing Director – NFP Retirement (NFP))
Paul Hackleman (NFP Senior Consultant)
Kellen Foley (NFP Investment Consultant)
Michelle Williams (Voya – Vice President – Strategic Relationship Management)
Jared Nakamoto (Voya – Hawaii Case Manager)
Matthew Takamatsu (Voya – Registered Representative)
Jason Polonsky (Voya Participant Engagement Consultant) by conference call

I. CALL TO ORDER

With quorum present Nelson H. Koyanagi, Jr. (Chair) called the meeting to order at 8:04 a.m. and presided as chair of the meeting. Laura Shimada (Laura) acted as secretary of the meeting.

II. MINUTES OF THE PREVIOUS MEETING

Committee members reviewed and unanimously adopted a motion by Carolee Kubo (Carolee) seconded by Joan Bolte (Joan), to approve the minutes of the February 1, 2019 annual meeting, as amended.

III. PUBLIC COMMENTS

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

IV. VOYA & NFP PRESENTATION – Michelle Williams (Michelle) asked if Voya could start with the Communications portion of the agenda and the Chair agreed.

A. Strategic Planning Session – Communication and Education

1. Personalized Messaging – Jason said that personalized messaging reached 2,789 unique participants and 56% engaged by opening or clicking on the emails. There were 25 who completed a financial wellness assessment, 83 saved more or restarted their contributions, 6 named a beneficiary, 9 diversified their accounts and 6 restarted saving. Jason covered the personalized financial wellness messaging campaign, the save more journey campaign, the diversification campaign, the beneficiary campaign and the stopped savers campaign. He noted that we are above the Voya benchmark in all categories.
2. Participant Engagement – Jason gave an overview of the engagement of participants in Q4 2019 and clarified that it does not include calls to the Honolulu office. He also said that 39% of active plan participants have engaged over the last 12 months, with 7% calling, 12% using the mobile app and 33% using the web. Our participants are using the mobile 4 times more than the Voya benchmark, 6% more use the web and 44% have signed up for web registration compared to the Voya benchmark of 30%. Jason stated that 3,208 participants logged in to the website, 45% engaged with myOrangeMoney and 23% of those took action. There were 155 participants who viewed a personalized video and 43% of them clicked the call to action button.
3. Financial Wellness – Jason noted that 43% of our participants are on track. He said that our participants' emergency fund is well above the Voya benchmark and overall our participants are engaging right up with the Voya benchmarks.
4. 2019 Year in Review – Jason reviewed all of the engagements over the last 12 months and said that we kicked off the campaign with Morningstar workshops in May. In June we ran the consolidate campaign and thanked Jared Nakamoto (Jared) and his team for the assistance they provide to our participants. Jason noted that we focused

on digital engagement or Edelivery in August with the goal of encouraging participants to access their account online and to consider opting in for Edelivery. He noted that participants opting for Edelivery increased by 1% every quarter. Jason said our next campaign was for those nearing retirement conducted in October. He noted that Jared reported that the emails bumped up activity and resulted in three requests for one-on-one meetings from retirees and 10 email requests for information from active participants. Jason noted the last campaign of the year was on financial wellness and was conducted in December so there won't be any statistics until the end of Q1.

5. 2020 Strategic Campaigns – Jason reviewed the 2020 objectives:
 - a) Beneficiary: encourage participants to review/update their beneficiaries.
 - b) Participation: develop cadence for new hire outreach to encourage enrollment.
 - c) Increase Contributions: motivate individuals to consider increasing their contributions.
 - d) Restart Contributions: motivate noncontributing active participants to resume contributions.
 - e) Web Registration/Edelivery: encourage and promote web registration and electing for Edelivery. He noted that the goal is to get 40% signed up for Edelivery and 65% for web registration.
 - f) 2020 Engagement Calendar
 - (1) First Quarter: Beneficiary campaign (to end in Q2).
 - (2) Second Quarter: Contribution Increase/Restart campaigns
 - (3) Third Quarter: Edelivery campaign
 - (4) Fourth Quarter: Enrollment campaign and National Retirement Security Week

Paul Hackleman (Paul) asked if Voya sees a direct correlation between the digital engagement campaigns and increased mobile usage. Jason said he sees it mostly for planning and engagement because the digital campaigns encourage Edelivery and web registration and the mailers seem to increase mobile usage. Paul commented that since the City is an outlier, we should consider the mobile usage as a submission to NAGDCA. He noted that it would fall to Voya to do the work for submission.

Paul said another point to make is the amount of participants who registered an account online is 44% which is higher than our book of business. Jason clarified that Voya has only captured web registration data over the last 3 years and the Voya book of business is a little higher, around 50%, so we have room to grow there.

Nelson asked Voya to provide the total number of participants who have registered for an online account. Jason noted that the goal is to always get people to register online to make sure they are safe. He added that even

though our numbers are good, we try to encourage participants to register their account online. Michelle noted that these are called account takeovers and if a participant registers, then someone else can't register for the participant's account in their own name. Jason noted that this is an opportunity to partner with the City to get more email addresses or the City can email it to participants. Paul said that City can't do that so we need to try and think of a different strategy and asked if it's possible to create shell accounts so non-participants can access the information.

Chair asked whether anyone could go in to Voya's site or do they need a login and password. Jared responded that you don't need a login to see information on the site but need to login if you want your account information. Carolee asked if Voya captures emails when they sign new employees up. She asked that since the City sponsored and sanctioned the program, can we use the City email addresses. Jared noted that some employees provide personal email addresses while others use their City email addresses. Lynn Wakatsuki (Lynn) said she doesn't have the policy in front of her but employees are supposed to use City resources for City needs. Michelle noted that the majority of information is available without an account so they will need to think through the process.

- B. NFP Provider/Consultant Review – Paul provided a summary of the 2019 Provider review. He noted that Voya has met all of the performance standards and there's nothing problematic. He presented the following items as strategic considerations for the Committee:
1. Item #11, Investment Policy Statement (IPS) Review - Paul noted that NFP is slowly replacing SST's IPS with NFP's IPS and requested that Vince Learned compare the two policies for the Committee's education to see if the Committee wants to adopt NFP's version of the IPS.
 2. Item #14, Conducted a Survey during the past year – Paul noted that Voya offered to conduct a survey but it is up to the Committee to decide if they want Voya to conduct a survey. The last survey was conducted in 2017.
 3. Item #21, Self-Directed Brokerage Accounts (SDBA) – Paul noted that Voya offered to provide information on the 19 self-brokerage accounts. Voya would provide information on how much assets each account has, not the actual account holder's, but the Committee needs to decide if they want this information.
 4. Item #25, Age Based Products Based on Participant's Risk Tolerance – Voya reported that the City has reach the threshold where fees can be reduced by customizing age-based target date funds. NFP recommends that we do so.
 5. Item #27, Three-Year Catch Up Provision – Paul noted that Voya offered to take a look at participants who are eligible for the three-year catch up provision to help them with their retirement security. NFP recommends

that the Committee request the data and decide if a targeted campaign would be appropriate.

Paul concluded that Voya gets an A+ for continuing to perform. Jared noted that last year they did about three dozen calculations. Participants will let them know when they want to retire and they go back and look at the participant's history and then recommend the three-year catch up provision.

- C. Secure Act – Bill Tugaw provided an overview of the provisions. He noted that the Secure Act was attached to an appropriations bill and it passed. Most of the provisions affect 401(k) plans but some provisions affect 457 plans. Voya still needs time to figure it out and to get clarification from the IRS.
 - 1. Mandatory Requirements
 - a) Required Minimum Distribution was age 70-1/2 but as of January 1, 2020 it changed to age 72.
 - 2. Optional:
 - a) In-Service Withdrawals – The age for in-service withdrawal is age 70-1/2 but the Secure Act gives the Committee the option of reducing the age to 59-1/2.
 - b) Birth or Adoption Expenses: Allows a participant to take a withdrawal of up to \$5,000. It looks like this could be paid back.
 - c) \$100,000 for Declared Disasters: Allows a participant to take a distribution and it looks like the participant can pay it back to keep the tax deferral status. The distribution doesn't have to be paid back but it can be.

Bill noted that whatever the Committee decides needs to be documented by 2024. Michelle noted that Voya has a task force but they are waiting to get IRS clarity. Chair asked if it is a distribution or a loan. Bill clarified that it's not a loan, it's a distribution, but it can be repaid.

- D. Voya Annual/Quarterly Report – The following is a summary of Voya's annual/quarterly report provided by Michelle Williams for the period January 1, 2019 to December 31, 2019.
 - 1. Client Health Review – This provides a comparison from 2018 to 2019.
 - a) Plan Statement – The summary provides a side-by-side comparison of the fourth quarter in 2018 with the fourth quarter in 2019. The plan started with \$670 million in 2018 and ended at \$638 million in 2019. We had really great market gains in 2019. Dividends were a negative \$55 million in 2018 and plus \$103 million in 2019. The plan ended the year with \$756 million in assets.
 - b) Participation – We started the quarter with 9,276 participants and we're currently at 9,475 participants. There were 488 new accounts

and 289 closed accounts. We've seen a steady growth over the years.

- c) Deferral Summary – For participants using a percentage deferral amount versus a specific dollar amount, the plan is at 9% which is outpacing the 6.5% benchmark. We want to see individuals save by percentage to automatically take advantage of salary increases. There are 635 participants using percentage deferral rates compared to only 610 as of 9/30/19.
 - d) Participant Engagement – This shows the number of unique participants by type of engagement. In 2017, 11.66% of participants engaged using the mobile app which rose to 18.06% in 2019. For participants who call in, there were 24.46% in 2017 and it dropped to 14.27% in 2019. The majority of the calls were deferral increases and fund transactions. There were 1,366 unique participants engaging, that's a good strong number in relation to plan size and 363 unique participants took action.
2. Plan Activity
- a) Transaction Activity Detail – Not much change from a distribution stand point. We want to make participants aware that they don't need to take their money out of the plan when they retire and emphasize the cost of the plan is usually much cheaper than other types of investment plans.

We continue to see more participants using Roth deferrals. Roth will continue to be more popular. There was a 3.99% growth from 2018 to 2019. Distributions had a 2.89% increase but that is not something the Committee should be overly concerned about.

- b) Current Participation and Enrollment Statistics – There were 482 new enrollments with an average deferral rate of 7.5% which is a good strong number.

Paul asked how much employees contribute for the defined benefit (DB) plan. Jenny Tobin (Jenny) said that new employees contribute 8% to retirement but for certain jobs it can be up to 11% or more. Paul noted that it's great that these employees are contributing almost 15% of their income towards retirement. Jared said that Voya comes on after the DB information and the new employees seem to want to do something to increase their DB funds. They tell the new employees that some employees contribute 9%.

- c) Diversification – 77% of plan participants have a diversified portfolio.
- d) Managed Accounts – This section provides an overview of the accounts managed by Morningstar. We started the quarter with 448 participants enrolled and \$37 million in assets. There were 49 new participants, 27 participants who cancelled this service, resulting in 470 participants for the quarter end. These accounts make up 6.34% of the Plan's total assets.

Bill asked if there are statistics for investment performance for managed accounts versus the regular portfolios. Michelle said that Voya conducted a review to assess the performance of Target Date Funds versus Managed Accounts users. The assessment timeframe was one year. Ideally, Voya would assess performance over a longer period of time for example 3 or 5 years. Over a one year period TDFs outperformed Managed Accounts; however, other studies indicate that Managed Accounts outperform TDFs over longer periods of time. Michelle noted that another key difference between TDF and Managed Accounts is the savings recommendation component. TDF and Managed Accounts can and do work together so the Plan can offer both. Voya can provide the study. Kellen Foley (Kellen) said the study should include equity because risks for managed and unmanaged portfolios are different. The Chair requested that Voya provide the Committee with that information.

- E. Target Date Fund Analysis – Kellen Foley provided additional information on TDF Fit Analysis and noted that this is the third session.
 - 1. Department of Labor's (DOL's) TDF Recommendations – Kellen briefly reviewed the DOL's recommendations and said the DOL wants fiduciaries to understand the underlying investments, review fees, consider custom or non-proprietary options and develop effective employee communications. If the committee elects to use the additional flexPATH 3(38) management services, he noted that NFP would become a 3(38) fiduciary.

Doug asked if the Committee would be providing NFP with authority to make investment decisions. Kellen said they would remain co-fiduciary and would become a 3(21) with respect to core funds. NFP would make recommendations and the Committee would decide. NFP's role with respect to the plan's core funds would not change. NFP would remain a 3(21) fiduciary in this capacity. For the TDFs, the Committee could decide to keep Vanguard, move to off the shelf TDFs or go with a flex path option. If we do the flex path, NFP has the additional service and becomes a 3(38) fiduciary.

- 2. Review of the Plan TDF/QDIA Decisions – Kellen noted that we previously did the best fit TDF risk posture and it was moderate. He said that the DOL emphasizes what is best for the plan. Currently, the Plan has Vanguard which is aggressive and is the only plan available. We can choose an alternative glidepath approach and NFP has a custom glidepaths where the participant has the option to choose conservative, moderate or aggressive. If the Committee wants to offer participants options, then the Plan would have to use NFP because there is no off the shelf version available.

3. Custom Models – Risk Based – Kellen noted that custom models are risk based while TDFs are age based. There is no change to the glidepath and participants need to alter the fund as they age to adjust for their risk tolerance.
4. Additional Service 3(38) Custom TDF Management – Risk plus Age Based. Allows the creation of tailored glidepaths which are created to match a plan's "individual participant" characteristics. What flexPATH does is have a risk option for each TDF so participants can choose their fund and their glidepath. NFP acts as a 3(38) fiduciary. About 5 years ago, NFP partnered with Blackrock and Wilmington to bring a custom TDFs to all our customers. NFPs fees are 3-10 basis points but can still give participants a lower cost even with the fee. We can offer
5. FlexPATH Strategies Multiple Glidepaths – flexPATH's glidepaths are managed by BlackRock. If you stay with Vanguard, recommend a moderate glidepath as a default.
6. Education Materials – NFP has resources available to educate participants on the different glidepaths. Paul recommended that the Committee devote a lot of time with Voya to educate participants should the Committee decide to go with custom TDF glidepaths.
7. MyCompass Index - Stable Value (SV) Asset Class – This is something that NFP created with Voya. It is a fully passive approach with an added SV component. NFP includes SV because it helps with volatility and will give you a stable rate of return from the fixed account. SV also hedges against rising interest rates going up. It is offered via the same additional 3(38) service as flexPATH.
8. Fees – With Blackrock you get a better fit (in comparison with Vanguard). It's a really good candidate for replacement for an off-the-shelf model with moderate risk.

Chair asked if NFP's task is to manage the fund managers. Kellen said yes and that NFP would also manage the glidepath. Doug asked with the 3(38) plan, NFP would have authority to assume investments but the Committee would be responsible to monitor NFP's performance. Kellen said yes, it would be a slightly different role for the Committee.

Kellen noted that only retirement plans can invest in the Wilmington Trust and part of NFPs role is to monitor the trust as a fiduciary. He explained that if the Committee decided to go with a custom fund, the quarterly review of the funds would use the NFP scorecard method and would include a review of the funds. NFP would provide information on fund changes and watch list funds. At any time, the Committee could decide to end the use of custom funds and go back to TDFs. .

Chair noted that the Committee is not prepared to make a decision. We have concerns about the Wilmington Trust agreement.

Laura noted that the Committee is still working on providing salary information to NFP. Jenny said we're working with our IT department and maybe could provide the information without names attached, so NFP could come up with a more accurate fit analysis. Kellen said they just need the percentage they are saving, the salary and the dollar contribution amounts by participant. They do not need information on the participant's age.

- V. 2020 COMMITTEE BUDGET** – Laura reviewed the 2020 calendar year (CY) budget. She noted that the money budgeted for education was not spent and will be spent in the 2020 calendar year on the benefits fair. She reported that we are deciding where and when to hold the fair.

Laura noted that we have reached the maximum carryover balance for all reserves which includes the increase of the contingency/stabilization reserve fund from 25% to 30%. Joan noted that correlates to the working group's strategy plan and factors inflation. Laura also noted that we didn't spend \$5,280 on dues and will go back and reconcile the expenditures from CY2018. Joan also noted that budget reflects that we received the allowance payment of \$220,000 but it shows that we received \$110,000 because the payment wasn't received until January of 2020.

The Committee unanimously approved a motion by Carolee Kubo, seconded by Joan Bolte, to approve the 2020 Committee budget.

Laura announced that Voya's contract has been extended for another year.

VI. NEXT MEETING

The next Annual Meeting will be during the First Quarter of 2021 with the exact date to be determined by the Deferred Compensation Committee Chair.

- IX. ADJOURNMENT:** There being no further business, the annual meeting was adjourned at 10:15 a.m.

Respectfully submitted,

Laura Shimada
Secretary