

PEA Committee

From: Akiyoshi, Cynthia C <cynthia.c.akiyoshi@hawaii.gov>
Sent: Thursday, September 07, 2017 10:00 AM
To: PEA Committee
Subject: Testimony to Maui County Council Policy, Economic Development, and Agriculture Committee
Attachments: Testimony to Maui County Council PEA Committee (part 1) - signed.pdf

Attn: PEA Chair Sugimura,

On behalf of the Board of Trustees of the Deferred Compensation Plan, please find the attached testimony in response to Committee Agenda Item PEA-39, A Deferred Compensation Plan for County Employees. A printed copy of this testimony will also be transmitted separately via U.S. mail.

Thank you,

Cynthia Akiyoshi
Dept. of Human Resources Development
235 S. Beretania St., #1004
Honolulu, HI 96813
Phone: 808-587-1063
Fax No.: 808-587-1107
Email: Cynthia.C.Akiyoshi@hawaii.gov

DAVID Y. IGE
GOVERNOR



STATE OF HAWAII
DEFERRED COMPENSATION PLAN
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

BOARD OF TRUSTEES

RODERICK BECKER
WESLEY MACHIDA
KANOE MARGOL
BRIAN MOTO
JAMES NISHIMOTO
KALEIHI'IKAPOLI RAPOZA
KENNETH VILLABRILLE

September 7, 2017

The Honorable Yuki Lei K. Sugimura, Chair
Policy, Economic Development, and Agriculture Committee
County Council
County of Maui
200 S. High Street
Wailuku, HI 96793

RE: Testimony to Maui County Council Policy, Economic Development, and
Agriculture Committee in Response to Committee Agenda Item PEA-39, A
Deferred Compensation Plan for County Employees

Dear Chair Sugimura and Members of the Committee:

My name is Brian T. Moto, and I am the Chairperson of the Board of Trustees ("Board") of the State Deferred Compensation Plan (aka Island Savings Plan, "Plan," or "State Plan"). I previously provided information about the Plan to this Committee at its August 8, 2017 meeting. I submit this testimony on behalf of the Plan's Board, which was recently informed of the resolution introduced under PEA-39 entitled *Authorizing the Mayor to Terminate the Agreement with the State of Hawai'i Island Savings Plan and Procure for a Deferred Compensation Plan for the County of Maui*. Based on the Board members' sense of their fiduciary obligations to Plan participants, as informed by consultation with legal counsel, the Board respectfully requests that you hold this Resolution at this time.

A county plan established under section 88E-14, Hawai'i Revised Statutes, "shall be in compliance with applicable federal laws and regulations." Maui County may want to obtain an opinion from independent counsel or special counsel on whether a plan-to-plan transfer of deferred compensation from the State Plan to a county plan is permitted under applicable federal laws and regulations. If counsel answers in the affirmative, Maui County may also want to obtain a private letter ruling from the Internal Revenue Service to confirm the opinion issued by independent counsel. Maui County may also wish to obtain a legal opinion on whether deferred compensation could be transferred from an existing county plan into the State Plan at a future date.

Creating a separate county plan would require Maui County to assume fiduciary responsibilities and liabilities, develop its own governing system for this plan, hire its own third-party administrator, hire an independent investment consultant, draft a plan document, promulgate county ordinances to implement the plan, add in-house staff to do this extra work, and consider whether what will be offered to the County's employees will be more cost-effective than what is on offer through the State Plan. Costs for

implementing and administering the plan would be borne by the plan and its participants. Certain investment product providers under contract to the State Plan may impose a penalty for non-retirement, non-termination withdrawals of deferred compensation from the State Plan, depending on the terms of their specific agreements with the State.

As of June 30, 2017, Maui County employees and retirees have \$105.4 million in the State Plan, and the State Plan has over \$2.2 billion in total assets. The amount of assets in the State Plan is a great advantage to all Maui County participants because the size of the State Plan's asset pool provides leverage to obtain lower fees. There are currently twenty-two investment products available to all participants. The Plan contracts with a Third-Party Administrator ("TPA") to offer record-keeping and educational services. The TPA as well as each investment fund charges fees to each participant in the Plan. Because of the Plan's size, the Board was able to obtain low TPA fees (0.125%) and low investment management expense fees for its investment products.

The Board has the fiduciary responsibility to select the investment options for our participants, and it takes this responsibility seriously. Funds are monitored for performance and terminated if their performance is inadequate. Communications with State and County participants are an essential part of the Plan's outreach and education: since becoming the Plan's TPA on April 30, 2013, Prudential has conducted 86 group workshops and 78 consultation sessions in Maui County, with a total attendance of over 1,000 Maui County employees at the workshops and 650 at individual consultations.

The Board of Trustees of the State Deferred Compensation Plan is committed to providing the best Plan and services for all of our participants. Based on our sense of fiduciary responsibility to Plan participants, we encourage you to hold this Resolution in Committee.

Sincerely,

Brian T. Moto

BRIAN T. MOTO
Chairperson
Board of Trustees
State Deferred Compensation Plan

cc: Maui County Mayor Alan M. Arakawa
Kaua'i County Mayor Bernard P. Carvalho, Jr.
Hawai'i County Mayor Harry Kim