

COUNCIL OF THE COUNTY OF MAUI

GOVERNMENT RELATIONS COMMITTEE

December 14, 2004

Committee
Report No.

04-223

Honorable Chair and Members
of the County Council
County of Maui
Wailuku, Maui, Hawaii

Chair and Members:

Your Government Relations Committee, having met on September 29, 2004 and December 1, 2004, makes reference to County Communication No. 04-28, from Councilmember G. Riki Hokama, relating to the matter of deferred compensation for County of Maui employees.

By correspondence dated July 9, 2004, the Chair of your Committee requested that the following people provide comments on the possibility of the County designating Nationwide Retirement Solutions (NRS) as its deferred compensation provider:

1. Dayton Nakanelua, State Director, United Public Workers;
2. Alton K. Watanabe, Maui Division Chief, Hawaii Government Employees Association (HGEA);
3. George Kaho`ohanohano, Business Agent, Maui Chapter Office, State of Hawaii Organization of Police Officers; and
4. Elvin Kamoku, Maui Division Chair, Hawaii Fire Fighters Association.

By correspondence dated July 28, 2004, Alton K. Watanabe, HGEA Maui Division Chief, commented that he was not in a position to determine if NRS would be the best choice of deferred compensation providers and inquired whether other proposals were considered, including AIG VALIC. Mr. Watanabe requested that whatever company is selected to provide deferred compensation benefits be a reputable company that would provide County employees with good service and sound investment options.

By correspondence dated August 5, 2004, the Chair of your Committee transmitted information on NRS's deferred compensation services.

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By correspondence dated September 24, 2004, the Council Chair transmitted correspondence dated August 27, 2004, from Brian Enoka and Brian Kawano, of AIG VALIC, inquiring about the request for proposals (RFP) process for selecting a deferred compensation provider and providing information on their company's services.

At its meeting of September 29, 2004, your Committee met with the Director of Finance; the Accounting System Administrator for the Department of Finance; the Director of Personnel Services; a Deputy Corporation Counsel; the State Director of Human Resources Development; the State Director of Finance; a Deputy Attorney General, Commerce and Economic Development Division, State of Hawaii; Ellen Narayan, Plan Manager for CitiStreet, Island Savings Plan, State of Hawaii Deferred Compensation; Peter Eddy, Plan Consultant for CitiStreet, Island Savings Plan, State of Hawaii Deferred Compensation; John MacTavish, Regional Vice President of AIG VALIC; Brian Enoka, Alaska/Hawaii District Manager of AIG VALIC; Brian Kawano, Senior Financial Advisor for AIG VALIC; and Elvin Kamoku, Maui Division Chair, Hawaii Fire Fighters Association.

Your Committee received the following printed documents:

1. A copy of Island Savings Plan's presentation and other information regarding its services;
2. A copy of AIG VALIC's presentation and other information regarding its services; and
3. A copy of NRS's presentation.

Your Committee received presentations from the CitiStreet's Island Savings Plan and AIG VALIC.

The State Director of Human Resources Development provided information on the State's deferred compensation program, which covers State, County of Maui, County of Kauai, and County of Hawaii employees. The assets of the plan exceed \$1 billion, and there are more than 28,000 plan participants. The County of Maui's portion of the plan assets exceeds \$45 million.

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The State Director of Human Resources Development provided the structure of the plan. There is a Board of Trustees, which oversees the plan and a third-party administrator. The Board of Trustees and the third-party administrator are supported by the Department of Human Resources Development and the Attorney General's Office. The plan also has consultant services and various investment providers. CitiStreet has been the Island Savings Plan third-party administrator since July 2003. CitiStreet was selected through a competitive bid process.

Ms. Narayan provided information on CitiStreet. It is the second-largest third-party administrator in the United States. CitiStreet services more than 5,000 government plans, including 14 state plans and 40 county plans the size of the County of Maui or larger. Ms. Narayan outlined CitiStreet's customer services. She provided a list of funds currently available as investment options. An independent consultant monitors fund performance. CitiStreet has offered workshops to provide education to participants. Personal consultations are also available. Ms. Narayan stated that there are no hidden fees or "spreads" (the difference between what the company earns and what it pays to the participant). CitiStreet is geared toward the Hawaii participants. She provided information on current plan performance.

Your Committee received a presentation from AIG VALIC. Mr. McTavish presented the merits of AIG VALIC. AIG does business in 130 countries. It is one of the largest financial services companies in the world with a market capitalization of more than \$200 billion. AIG VALIC is the domestic retirement services company for AIG. The company currently has relationships with 50 mutual fund companies and is expanding. More than 2,300 funds are available to AIG VALIC plan participants at this time. Mr. McTavish mentioned the possibility of expanding to offer personal choice retirement accounts to provide more options to participants. He outlined the different types of investors. AIG VALIC has done business in Hawaii for 20 years.

Mr. Enoka noted that AIG VALIC has 28 advisors throughout the State. Three of these advisors provide services on Maui. One advisor services Molokai, and another services Lanai.

Your Committee discussed whether the State would be willing to examine any other plans for the County of Maui. The State Director of Human Resources

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Development said she felt it is prudent to remain on the same plan as other State and county employee participants because of the benefits offered to the participants.

Your Committee discussed the length of time needed to implement a plan change. Mr. McTavish said that AIG VALIC would probably take three months to convert the program. This would be a blackout period, where transactions would not be allowed.

Your Committee discussed the role of the counties in the Island Savings Plan. The State Director of Human Resources Development indicated that the counties benefit by participating in the State plan because of leverage and professionalism provided by a larger plan. She stated that the Board of Trustees has not lost sight of the neighbor island perspective as it relates to the State deferred compensation program.

Your Committee discussed the competitive bid process used in selecting CitiStreet as the Island Savings Plan third-party administrator. The State Director of Finance indicated that this process was used to select the best program for the plan participants. The Deputy Attorney General indicated that the plan seeks competitive bids every five to seven years for a third-party administrator contract by following Chapter 103D, Hawaii Revised Statutes, the Hawaii Public Procurement Code.

Your Committee discussed why the City and County of Honolulu does not participate in the Island Savings Plan. The Deputy Corporation Counsel indicated that the City and County of Honolulu initiated its deferred compensation program prior to the State's program being created and chose to stay with its own program.

Your Committee discussed the ability of the County of Maui to support its own deferred compensation program. Mr. McTavish said that he felt that with \$45 million in assets, the County could have its own program. He indicated that if the average account balance was high, it might be less costly to administer than if there were smaller account balances.

Your Committee discussed the Council's role in deciding the County's deferred compensation program. The Deputy Corporation Counsel indicated that

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the existing deferred compensation agreement allows the County of Maui to exit the current plan with notice. The Council would initiate a resolution requesting the change, and the Mayor would ultimately have the authority to implement the changes.

Your Committee compared the programs. Your Committee also discussed the negative response of the participants to prior changes to the deferred compensation program.

The Deputy Corporation Counsel suggested informing the employees of a potential change in the deferred compensation program by working with the labor unions, communicating through the departments, or conducting a survey. Your Committee noted that it contacted four labor unions for comments and only one replied.

Your Committee deferred the matter pending further discussion.

By correspondence dated November 22, 2004, Councilmember G. Riki Hokama transmitted a proposed resolution, entitled "AUTHORIZING THE MAYOR TO EXECUTE AN INTERGOVERNMENTAL AGREEMENT TO PROVIDE FOR A NEW DEFERRED COMPENSATION PROGRAM FOR COUNTY EMPLOYEES". The purpose of the proposed resolution is to authorize the Mayor to enter into an intergovernmental agreement to establish a new deferred compensation program for County employees, to be provided by NRS, the National Association of Counties (NACo) deferred compensation program.

At its meeting of December 1, 2004, your Committee met with the Deputy Director of Finance; the Director of Personnel Services; a Deputy Corporation Counsel; Tom Sweet, Director of Corporate Relations, NACo; and Sean Cauvel, Director of Business Development, NRS.

Your Committee received public testimony from three people.

Two of the testifiers requested that County employees be notified of any proposed change in the deferred compensation program before decisions are made.

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The other testifier, on behalf of AIG VALIC, indicated that his company is interested in being considered as a deferred compensation provider for the County of Maui.

Mr. Sweet stated that NACo selected NRS through an RFP process. NRS was selected with the help of NACo's advisory group that represents the counties. NACo will continue to make changes to improve the program and provide educational seminars. The NACo program discloses all fees to the program participants. Mr. Sweet also indicated that NRS provides a guaranteed fixed rate for a 12-month period. If interest rates on fixed investments were higher during the fixed-rate period, investors would receive the higher rate of return.

Mr. Cauvel provided a document with information on NRS. He said NRS is committed to the public sector and is a market leader in the industry. NRS employs adult education specialists to help design interesting educational programs. NRS has vast transition expertise and can offer seamless transition, usually over the course of one weekend. If selected, NRS will have a representative on Maui two days per week.

Your Committee discussed the possibility that plan participants will resist change. Your Committee expressed a strong desire to see that County employees are notified and educated on the proposed change in the program. The Deputy Director of Finance indicated that approximately two-thirds of the County's employees participate in the Island Savings Plan. He said that the Mayor had been concerned with the lack of communication between County employees and CitiStreet. Drastic improvement is required in the coming year, and the Mayor is planning to provide for employee feedback and comment, according to the Deputy Director of Finance.

The Director of Personnel Services encouraged widespread notification of employees through the labor unions and payroll notifications.

Your Committee discussed the possibility that plan participants may prefer a higher rate of return rather than enhanced customer services such as investor education or face-to-face customer interaction.

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Your Committee discussed the possibility of establishing a floor for guaranteed investments through insurance so that investors would not lose their entire investment. Mr. Cauvel indicated that all NRS customer service advisors are licensed with the SECC.

Your Committee discussed why NRS was not selected as the Island Savings Plan third-party administrator. Mr. Sweet indicated that NRS submitted an independent bid to the Island Savings Plan. This bid was not associated with NACo or the NACo deferred compensation program.

Your Committee discussed its desire to see a side-by-side comparison of NRS and other deferred compensation programs.

Your Committee discussed the possibility of revising the proposed resolution to urge the Mayor to notify County employees of the possible change in the deferred compensation program. Your Committee decided not to revise the proposed resolution and instead expressed confidence in the Administration's intention to notify County employees of the proposed change.

Your Committee voted to recommend adoption of the proposed resolution and filing of the communication.

Your Government Relations Committee RECOMMENDS the following:

1. That Resolution No. _____, attached hereto, entitled "AUTHORIZING THE MAYOR TO EXECUTE AN INTERGOVERNMENTAL AGREEMENT TO PROVIDE FOR A NEW DEFERRED COMPENSATION PROGRAM FOR COUNTY EMPLOYEES" be ADOPTED; and
2. That County Communication No. 04-28 be FILED.

Adoption of this report is respectfully requested.

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DAIN P. KANE **Chair**

MICHAEL J. MOLINA **Member**

G. RIKI HOKAMA **Vice-Chair**

CHARMAINE TAVARES **Member**

DANNY A. MATEO **Member**