

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 2394, H.D. 1

March 29, 2010

RELATING TO THE BOARD OF TRUSTEES OF THE DEFERRED COMPENSATION
PLAN

Senate Bill No. 2394, H.D. 1, makes the Director of Human Resources Development one of two ex-officio members on the Board of Trustees of the Deferred Compensation Plan and deletes the requirement for the Director to serve as the Chairperson. The bill also requires the Board of Trustees to have five employee members appointed by the Governor with the advice and consent of the Senate.

This department opposes the proposed change to the Board of Trustees of the Deferred Compensation Plan. Pursuant to Section 88E-4, Hawaii Revised Statutes, the current Board of Trustees consists of the Director of Human Resources Development (who serves as the chairperson), the Director of Finance or a designated representative (ex officio), and five other persons (three of whom shall be public employees). Mandating that the five other persons be public employees will limit the Board's access to potential trustees from the private sector who may have more diverse financial and investment experience.

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March 25, 2010

TESTIMONY TO THE
HOUSE COMMITTEE ON FINANCE

For a Hearing on March 29, 2010
4:00 p.m., Conference Room No. 308

BY

MARIE C. LADERTA, DIRECTOR

(WRITTEN TESTIMONY)

Senate Bill No. 2394, H.D.1
Relating to the Board of Trustees of the Deferred Compensation Plan

TO CHAIRPERSON MARCUS OSHIRO AND MEMBERS OF THE COMMITTEE:

The purposes of Senate Bill No. 2394, H.D.1, are to: (1) change the number of public employee members of the Board of Trustees ("Board") of the State of Hawaii Deferred Compensation Plan ("Plan") from three to five; and (2) make the director of human resources development one of two ex officio members of the Board; and (3) delete the requirement that the director serve as the chairperson.

I am the Director of the Department of Human Resources Development ("DHRD") and the Chairperson of the Board, and both the Board and DHRD strongly oppose this measure for the following reasons:

- **There is no justification to remove the requirement that the DHRD Director serve as chairperson of the Board because this important focal role of the Chair rightfully rests with the DHRD Director, whose core responsibility is to administer the employee benefit programs/plans for State employees.** It

is important the DHRD Director remain as the chairperson of the Board because the Director of DHRD has the responsibility to oversee, implement, and administer a variety of employee assistance and benefit programs which make up the total compensation package to State employees. Retaining the DHRD Director as the Board's chairperson ensures that all (excluding the ERS) employee assistance and benefit programs are administered uniformly and consistently by DHRD. Indeed, the role of the DHRD Director as Chair is currently required by law – at a minimum, an argument can be made that Legislators who enacted this statute agreed that the important role of Chair be vested in the DHRD Director.

It has come to our attention that the amendment to remove the DHRD Director as chairperson may be based on an unfounded "theory" that the Board somehow makes decisions in favor of the employer and at the expense of employees. This concern is completely unfounded and absurd. The goal and mission of this Board is 100% for the benefit of employees. The Board's primary goal is to help employees, and ensure that they have adequate funds for retirement. Since the Plan's inception over twenty (20) years ago, the chairpersons of the Board and the other Trustees have made decisions involving the Plan in the best interests of participants (i.e., employees). The employer's sole purpose is to provide the best Plan possible to employees. Thus, having the DHRD Director act as the chairperson of the Board is a plus and has not adversely affected the Plan or participants.

- **There is sufficient public employee representation on the Board and the current appointment process already allows for all public employees to be considered for a Board vacancy.** Contrary to arguments made by the Hawaii Government Employees' Association ("HGEA"), there currently are five (not three) public employee Trustees on the Board because the Directors of DHRD

and Director of Budget and Finance are both public employees. Thus, a majority of Trustees are public employees.

Requiring the remaining two Trustees to also be public employees will foreclose the Board's access to diverse financial and investment experience of non-employees and individuals from the private business sector. These individuals bring a different perspective and insight to the Board, and are valuable resources to the Plan. Precluding the Board from accessing these individuals will be disadvantageous to and adversely affect the Plan.

Also, the current appointment process does not prohibit the kind of representation that is being suggested by the Hawaii Government Employees' Association. Any public employee can apply to be a Trustee on the Board, and the appointment process allows the other public employees to comment on the applicant's qualifications and background.

- **The Board has done an exemplary job. It is not just an ordinary Board, but a "model" Board deserving recognition and appreciation. There is no justification for changing.** Over the past twenty (20) years, the Board has consistently worked hard to make the Plan one of the best for its 28,000 participants. Because of the many pro-employee initiatives and its sound management investment team, the Plan has been and continues to be recognized nationally as a model plan, and has received several national awards, including: (1) the 2008 Plan Sponsor Awards for Excellence which nationally recognized the Plan for demonstrating leadership in providing a more secure retirement for workers through the Plan's many enhancements; (2) the 2008 Leadership Recognition Award by the National Association of Government Defined Contribution Administrators, Inc. ("NAGDCA") for the Plan's effective communication leadership on its Lifecycle Funds Promotional campaign; and (3)

2nd place in the 2007 Pension & Investments Eddy Awards for the Plan's educational communications to participants about investing. Thus, due to the Trustees' consistent drive to improve the Plan and act in the best interest of the participants, there is no reason to change the make up of the Board.

Based on the above, DHRD and the Board respectfully request that this bill be held. Thank you for the opportunity to testify on this matter.



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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Finance

Testimony by
Hawaii Government Employees Association
March 29, 2010

S.B. 2394, H.D. 1 – RELATING
TO THE BOARD OF TRUSTEES
OF THE DEFERRED
COMPENSATION PROGRAM

The Hawaii Government Employees' Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of S.B. 2394, H.D. 1, which makes important changes to the composition of the Board of Trustees of the state's deferred compensation plan. It increases the number of public employees who represent employee interests on the board from three to five. The funds deposited in the deferred compensation program belong to the employees. It is the employees' money and they, not the employer, should have decision-making authority over the program's operation.

It also removes the Director of Human Resources Development as the chairperson and makes the position or their designated representative ex-officio. We suggest one additional amendment to Section 88E-4 (3). HRS that would ensure a civil service bargaining unit employees is represented on the deferred compensation board.

- (3) Five other persons, [three of whom] who shall be public employees and represent employee interests. At least one of the public employees shall be a civil service bargaining unit employee and have experience with taxation, finance and investments."

Thank you for the opportunity to testify in support of S.B. 2394, H.D. 1 with the suggested amendment.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director