

TESTIMONY

SB 2394

LINDA LINGLE
GOVERNOR OF HAWAII



MARIE C. LADERTA
DIRECTOR

CINDY S. INOUE
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

February 1, 2010

TESTIMONY TO THE
SENATE COMMITTEE ON LABOR

For a Hearing on February 2, 2010
3:00 p.m., Conference Room No. 224

BY

MARIE C. LADERTA, DIRECTOR

**Senate Bill No. 2394
Relating to the Board of Trustees of the Deferred Compensation Plan**

(WRITTEN TESTIMONY ONLY)

TO CHAIRPERSON DWIGHT TAKAMINE AND VICE-CHAIRPERSON BRIAN
TANIGUCHI:

The purposes of Senate Bill No. 2394 are to: (1) make the director of human resources development one of two ex officio members of the Board of Trustees ("Board") of the State of Hawaii Deferred Compensation Plan ("Plan") and delete the requirement that the director serve as the chairperson; (2) change the number of public employee members from three to five and require all five members to be elected by the employee beneficiaries of the Plan; and (3) delete the governor's authority to appoint Board members and requirement that the Senate review and consent to the appointments.

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. At its January 26, 2010 meeting, the Board voted unanimously to oppose this measure for the following reasons:

- There is adequate public employee representation on the Board (three members). Since the Plan's inception, the Board has always had three public members appointed by the Governor, including representatives from the unions. Increasing the number of public employee members from three to five will preclude the Plan from having access (that is currently provided) to diverse financial and investment experience of non-employees and individuals from the private business sector. This change will be disadvantageous to and adversely affect the Plan and its participants.
- Participants already participate in evaluating the Trustees' qualifications. Through the current appointment process, all employees and participants (as well as any member from the public) may comment on nominated Trustees and their qualifications. The process also ensures that each nominated Trustee has the appropriate background and qualification to make sound decisions. Thus, formal elections to select Trustees are unnecessary to get employees' and the public's input.
- There are significant costs associated with holding elections. This measure requires the Board to hold an election each year to replace an outgoing Board member. In addition to being very time consuming, holding elections is very costly. Over a ten-year period, this cost could exceed \$1 million to hold these annual elections. Under HRS section 88E-13, the costs for implementing the Plan are required to be borne by the Plan and its participants. Requiring the Plan and participants to be responsible for these elections costs during these difficult economic times is difficult to justify and is nonsensical. Participants may feel that these additional election costs are excessive and unreasonable, and that the reduction in the value of their accounts is not justifiable in order to be able to elect Trustees.

Furthermore, these elections will impact DHRD because its staff would have to provide support to these elections. Because DHRD's staffing has already been severely reduced, DHRD's resources cannot support the initial and ongoing elections process without adversely affecting its current services to employees.

- Other section 457 deferred compensation plans do not have elected members. In other states, a significant majority of boards and commissions that only oversee section 457 deferred compensation plans have appointed (not elected) members or utilize in-house committee members.
- The appointed Trustees have done an excellent job. Since its inception in 1983, the appointed Trustees have always done an excellent job in implementing and managing the Plan and its assets. Recently, the current Trustees have provided investment advice to participants, held numerous Benefits Fairs to inform participants about the Plan and its investment options, diversified the Stable Value Fund to reduce risk to conservative participants, replaced underperforming investment options, added new investment options, and are in the process of implementing a brokerage window. In summary, the current appointment process works and has provided capable and responsible Trustees. It is therefore unnecessary and disadvantageous to require Trustee elections.

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.



HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA
Executive Director
Tel: 808.543.0011
Fax: 808.528.0922

NORA A. NOMURA
Deputy Executive Director
Tel: 808.543.0003
Fax: 808.528.0922

DEREK M. MIZUNO
Deputy Executive Director
Tel: 808.543.0055
Fax: 808.523.6879

The Twenty-Fifth Legislature, State of Hawaii
Hawaii State Senate
Committee on Labor

Testimony by
Hawaii Government Employees Association
February 2, 2010

S.B. 2394 – RELATIING TO THE
BOARD OF TRUSTEES OF THE
DERFERRED COMPENSATION
PROGRAM

The Hawaii Government Employees' Association, AFSCME Local 152, **AFL-CIO strongly supports the purpose and intent of S.B. 2394**, which makes significant changes to the composition of the Board of Trustees of the state's deferred compensation plan and the method of electing them. 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.

What this bill proposes is to increase the number of public employee trustees from three to five public employee trustees who are to be elected by the employee-beneficiaries of the plan instead of being appointed by the Governor. It also removes the Director of Human Resources Development as the chairperson and makes the position ex-officio. The election of employee trustees is similar to process used by the Employees' Retirement System. In some states, the deferred compensation plan is administered by the state's retirement system. This bill would move Hawaii closer to that type of administrative structure.

Thank you for the opportunity to testify in support of S.B. 2394.

Respectfully submitted,

Nora A. Nomura
Deputy Executive Director