LINDA LINGLE
GOVERNOR OF HAWAII

MARIE C. LADERTA
DIRECTOR

CINDY S. INOUYE
DEPUTY DIRECTOR

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

March 8, 2010

TESTIMONY TO THE
HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

For a Hearing on March 9, 2010
9:30 a.m., Conference Room No. 309

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 KARL RHOADS AND MEMBERS OF THE COMMITTEE:

The purposes of Senate Bill No. 2394 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 require all five members to be elected by the employee beneficiaries of the Plan; (2) delete the governor's authority to appoint Board members and requirement that the Senate review and consent to the appointments; (3) make the director of human resources development one of two ex officio members of the Board; and (4) 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. At its January 26, 2010 meeting, the Board voted unanimously to oppose this measure for the following reasons:

- Participants' account balances will be reduced to pay for the elections. This measure requires the Board to hold an election each time to replace an outgoing Board member. In addition to being very time consuming, holding elections is very costly. Each election will cost over $100,000.00. Under HRS section 88E-13, participants will be responsible for the costs of these elections, and these costs will ultimately reduce participants' retirement savings in the Plan. If ten annual elections are held, this will result in over $1,000,000.00 being deducted from participants' accounts. The Board is clearly not in favor of any measure that reduces participants' retirement savings, especially during these difficult economic times. Participants may feel that imposing 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 departments.

- The Plan is administered differently than the ERS, which has elected Trustees. Although the ERS has elected Trustees, the ERS (not the beneficiaries or retirees) pays for all election costs. Thus, elections under the ERS and the Plan are different and it is misleading to compare the two since the Plan's participants (not the State) will be paying for all election costs.

- 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.

- 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 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 deny 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.

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

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

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The Twenty-Fifth Legislature, State of Hawaii
Hawaii State House of Representatives
Committee on Labor and Public Employment

Testimony by
Hawaii Government Employees Association
March 9, 2010

S.B. 2394 – RELATING 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 selecting 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 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

888 MILILANI STREET, SUITE 601 HONOLULU, HAWAII 96813-2991