

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
MEETING OF APRIL 17, 2018
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:

Raymond Ciranna, First Provisional Chair
Robert Schoonover, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Cliff Cannon
Neil Guglielmo
Don Thomas

Not Present:

John Mumma, Chairperson
Linda P. Le

PERSONNEL DEPARTMENT STAFF

Jody Yoxsimer – Assistant General Manager
Steven Montagna – Chief Personnel Analyst
Matthew Vong – Management Analyst
Daniel Powell – Personnel Analyst
Kevin Hirose – Personnel Analyst

OFFICE OF THE CITY ATTORNEY

Curtis Kidder – Assistant City Attorney

MERCER INVESTMENT CONSULTING

Devon Muir – Principal
Ana Tom-Chow – Associate

VOYA FINANCIAL

Michelle Williams – Vice President Strategic Relationship Management
La Tanya Harris – Registered Representative
Luis Chaves Guzmán – Participant Engagement Consultant

1. CALL TO ORDER

Mr. Ciranna called the meeting to order at 9:00 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Mr. Guglielmo, seconded by Mr. Schoonover, to approve the minutes of the March 20, 2018 meeting; the motion was unanimously adopted.

4. PLAN ADMINISTRATOR QUARTERLY REVIEW: DECEMBER 31, 2017

Michelle Williams with Voya Financial (Voya) provided the Third-Party Administrator (TPA) quarterly review for the fourth quarter of 2017. Ms. Williams first reviewed 2018 financial benefit trends Voya had identified based on an employer survey, which consisted of financial education benefits, student loan repayment benefits, holistic financial benefits, short-term financial issues assistance, and financial education to future generations. She stated that of the employers surveyed, many have made changes, or are considering making changes, to their benefits packages, in areas such as expanding personal financial planning, promoting increased contributions, increasing or accelerating pension plan contributions, and addressing gender pay gap issues. She stated that social media use among the population aged 65 and older has tripled between the years 2010 and 2016 and that entrepreneurial activity in the past ten years has been from individuals between the ages of 55 to 64 years.

Ms. Williams next reported on the Plan statistics, assets, the number of participants, average participant account balance, and cash flow summary for the period under review. She indicated that contributions tend to decline towards the end of the year due to people reaching maximum contribution limits earlier in the year. She stated that distributions often accelerate towards the end of the year as participants receive their Required Minimum Distributions (RMDs).

Mr. Thomas stated that the “other” number listed on Voya’s report under cash in and cash out are identical, and asked for a breakdown of the items. Ms. Williams stated she would research and report back to the Board on the specific items related to “other.”

Mr. Schoonover asked for clarification regarding the rules concerning Roth RMD withdrawals. Mr. Montagna responded that RMD rules apply identically to both Roth and pre-tax distributions. He stated that RMD amounts must be re-calculated annually based on a participant’s account balance and life expectancy tables published by the Internal Revenue Service (IRS). He indicated that an individual does not have to exhaust his or her entire account by a particular age since the tables provide new life expectancies for each year of age.

Mr. Ciranna asked if there was an explanation for the large cash out amount listed in October 2017. Mr. Montagna responded that Plan staff would look into this issue and report back.

Ms. Williams provided an overview of the age breakdown of participants investing in Roth versus pre-tax plan accounts and indicated that the younger workforce is investing in Roth at a higher rate than the older workforce. She provided a breakdown of the total contribution amount that participants are investing. She indicated that the highest contribution amount, 7,112 participants out of the total 31,060 are contributing \$500 or more per pay period. She provided an overview of the contribution amounts of participants for pre-tax and Roth, average contribution amount by age group,

contribution by percentage, and average contribution percentage by age group.

Ms. Williams provided an overview of disbursements during the fourth quarter of 2017. She reviewed emergency withdrawals and stated that of the requests received, 90 were completed, and 51 denied. She stated that for future reports she would provide a breakdown of the denial reasons. She continued with an overview of rollover activity and indicated the specific investment managers or advisory firms to which participants are directing rollover funds. She stated that while there will always be individuals that roll out funds for a variety of reasons, Voya's focus will be on partnering with the City to promote the benefits of staying in the Plan and making sure individuals are informed that when they retire they are not required to roll their money out of the Plan and always have the full support and resources of the Plan available to them as a retired participant.

Ms. Williams next reviewed the Plan's balances by investment. Mr. Cannon asked about the discrepancy in Voya's balance sheet compared to the 2017 Deferred Compensation Annual Report. Mr. Montagna stated that staff's numbers relied on the data from the Mercer investment review and it appears the Voya report may have a different reporting amount for the Charles Schwab Self-Directed Brokerage Option (SDBO).

Ms. Williams continued with an overview of transfers in and out by investment. She discussed participant data by investment and explained that plan sponsors look at this data in regards to overall participant diversification. She stated that individuals who have assets in the Plan's risk-based asset allocation funds are accounted for in this reporting. She provided a breakdown of participants with a balance in a single investment option and then briefly reviewed holdings in the SDBO.

Mr. Ciranna asked if the 13.6% held in cash in the SDBO is correct. Mr. Montagna responded that it is not unusual to see cash holdings at this level in the SDBO, and that he had observed higher cash holdings in the past, particularly following major market declines in 2000 and 2008. Mr. Ciranna asked if participants use cash as a holding account for future investing. Mr. Montagna confirmed that some of the cash could be proceeds from sales or awaiting investment for those actively trading.

Ms. Williams concluded her presentation by providing an overview of participant loans, participant customer contact counts, the top ten call reasons, the time for customer service representatives to respond to a call, and participant activity at the local office at City Hall. Mr. Guglielmo asked for further details regarding dropped calls. Ms. Williams indicated that they do capture more data and she will include that in future quarterly reports.

5. BOARD REPORT 18-14: DEFERRED COMPENSATION PLAN 2017 ANNUAL REPORT

Mr. Powell presented the proposed Deferred Compensation Annual Report for 2017. He stated that the Board is required to report annually to City Council and Plan participants on the administrative and financial conditions of the Plan. He indicated that the 2017 Annual Report fulfills the requirement and also provides information and data related to the Plan's core goals and metrics.

Mr. Montagna stated that the 2017 Annual Report included new items to provide a greater historical

perceptive on certain data points, particularly with respect to measuring participation, contributions, distributions, and rollovers. Ms. Macy noted that the 2017 Annual Report was completed much earlier this year. Mr. Montagna concurred, noting that acquiring the data was easier as a result of improved data sharing and reporting with Voya as compared to the prior TPA.

Following this discussion, a motion was made by Mr. Schoonover, seconded by Ms. Macy, that the Board of Deferred Compensation Administration approve the 2017 Annual Report for the City of Los Angeles Deferred Compensation Plan; the motion was unanimously adopted.

6. BOARD REPORT 18-15: FINANCIAL PLANNING AND INVESTMENT ADVICE SERVICES

Mr. Vong presented this report. He began by indicating that providing advisory services could help the Plan with its core objective of assisting employees to achieve retirement income security. He stated that since inception the Plan had provided participants with retirement saving counseling through its TPAs, but that in prior years the Board has periodically considered expanding its scope to include financial planning and/or investment advice services. As an example, he stated that in November 2013, at the Board's invitation, the New York City Deferred Compensation Plan (NYCDCP) presented information regarding their financial planning educational program and resources, including holistic financial planning services covering a broad range of financial planning topics such as estate planning, college planning, and insurance planning. He stated that the NYCDCP did not provide investment advisory services, which would involve providing participants with direct advice on how to invest.

Mr. Vong indicated that offering financial planning resources may positively impact participant behaviors regarding saving for retirement. He stated that a financial planner could be a resource for retired participants in developing distribution strategies and helping them prolong their retirement income as well as support the Plan's asset retention objective.

Mr. Vong reported that results from the Plan's 2015 participant survey indicated interest in financial planning and investment advisory services, and that feedback from local representatives indicates that participants have shown interest in having more direct guidance on where to invest their money. He reported that SDBO provider Charles Schwab provided staff with metrics on how much participants spent for advisory services through the self-directed brokerage window. He indicated that in 2017 participants paid approximately \$910,000 for investment advice services.

Mr. Schoonover asked who would pay for these services. Mr. Montagna responded that for investment advisory services the likely model would have only those participants utilizing the services pay for them as they presently do with the SDBO. He stated that in the example of the NYCDCP, a general component was paid by the NYCDCP; however, if an individual requests an individualized financial plan, the individual would be charged a fee for such services. He indicated there is a range of ways the City's Plan can be structured and that staff is looking into different models. Mr. Schoonover stated that the fee-based structure is how he believes it should be modeled and that if the participants are paying for the service, they own the result.

Mr. Ciranna commented that this structure also provides participants ownership of the risk involved in pursuing these services. He indicated that Los Angeles Fire and Police Pensions (LAFPP) have been trying to establish a similar service. He stated that participants need to be educated both generally and specifically, but there is risk involved, and if the Board proceeded with this option it was important to work with the City Attorney to be consistent across the City.

Mr. Vong stated that staff believes that offering financial planning services and investment advisory services should be given consideration and therefore recommends that this issue is referred to the Plan Governance and Administrative Issues Committee to review the merits and feasibility of offering these services and return to the Board with recommendations for further action. Mr. Guglielmo stated that items that should be researched are the types of certification classifications that the Plan will use, which could include Certified Financial Planners, Chartered Financial Analysts, Certified Public Accountants, Personal Financial Specialists, Certificated Retirement Counselors, and other classifications available related to providing financial advisory services. He stated that the Plan should follow full fiduciary responsibilities by not having an advisory service provided by a firm that also sells product, so the best interests of the participants are being protected. Finally, he indicated that to support participation, the fee for these services should be set at an affordable amount. He stated that the NYCDGP model provided group seminars and asked if this would be an option that the Plan is considering or if we are only exploring individual counseling sessions. Mr. Montagna responded that all options are being considered and that Plan staff will report to Plan Governance and Administrative Issues Committee with a full range of potential services and service delivery models.

Following this discussion, a motion was made by Mr. Cannon, seconded by Mr. Guglielmo, that the Board of Deferred Compensation Administration direct the Plan Governance & Administrative Issues Committee to review the merits and feasibility of offering financial planning and/or investment advice services within the City's Deferred Compensation Plan and develop recommendations for further action; the motion was unanimously adopted.

7. BOARD REPORT 18-16: DEEMED IRA

Mr. Vong presented this report. He stated that one of the Plan's strategic initiatives for 2018 included reviewing the merits and feasibility of offering a Deemed IRA to the City's Plan. He explained that a Deemed IRA is an employer-sponsored IRA alongside the Deferred Compensation Plan and that both Traditional and Roth IRAs can be established within the Plan. He continued by explaining that participants currently could roll in Traditional pre-tax IRAs to the City's Plan; however, neither a Roth IRA or a Traditional IRA with a mixture of pre-tax and after-tax dollars can be rolled into the Plan.

Mr. Vong stated that the benefits of offering a Deemed IRA are that it would provide a new home for Roth IRA rollovers, and would give participants investment choices with which they are already familiar. He stated it would provide an additional means to contribute more towards retirement. He provided an overview of the differences of IRAs versus Internal Revenue Code Section 457 plans. He stated that with respect to IRAs, participants may withdraw funds when working, spouses are allowed to contribute, and are subject to early distribution penalty before age 59½; none of these features apply to Section 457 plans. He stated that current IRS regulations allow Deemed IRAs to be held in separate individual trusts, a single trust separate from the trust for the employer plan, or a single

trust that includes the employer plan. He stated that the authority already exists within the Los Angeles Administrative Code for the Plan to offer a Deemed IRA, but that the rules and operational requirements on offering a Deemed IRA would require amendments to the Plan Document.

Mr. Vong stated that Voya has indicated that it is fully capable of administering a Deemed IRA for the City. He stated that if the Board wishes to proceed in establishing a Deemed IRA the next step would involve conducting a thorough legal review of the regulatory requirements and implications. He stated that Plan staff recommends that the Board direct Plan staff work with the City Attorney and outside tax counsel to conduct a thorough review and develop recommendations for Board action.

Mr. Ciranna asked if there was a target group of participants that have requested this feature. Mr. Vong responded that the target group could be participants who have maxed out their contributions, and this would allow participants the opportunity to contribute more towards their retirement. Mr. Montagna added that one quirk of current law is that Roth IRA assets cannot be rolled into the City's Plan, so if a participant wanted to open a Roth IRA, and if they liked the City Plan's asset choices and lowered fees, a Deemed IRA could be an option available to them, whereas presently they are restricted to outside investment managers. He stated that staff is aware of other large entities looking into offering Deemed IRAs but at this point staff's perspective was investigative only.

Following this discussion, a motion was made by Mr. Guglielmo, seconded by Ms. Schoonover, that the Board of Deferred Compensation Administration direct staff to work with the City Attorney and outside tax counsel to conduct a full review of the regulatory requirements and implications of offering a Deemed IRA and develop recommendations for Board action; the motion was unanimously adopted.

8. BOARD REPORT 18-17: PLAN SERVICES ENHANCEMENT AND CUSTOMIZATION

Mr. Powell reported that with the Plan's transition to Voya in October 2017, one key consideration was Voya's ability to enhance Plan services, features, and administration with custom and innovative solutions. Since the transition, Voya and Plan staff have collaborated to refine and improve upon a variety of work processes, customer service issues, website capabilities, communications, and data management.

Mr. Powell provided an overview of the enhancements that Voya and Plan staff are working on. He stated that a long-standing challenge for the Plan is to provide a unique and robust web experience for participants. He indicated Voya has been receptive to make changes to their website and could create a more engaging web experience through an engagement microsite, which would focus on educating employees regarding the Plan. He stated the microsite would be accessible pre and post log-in, so individuals not currently enrolled in the Plan can access educational information. Mr. Powell stated that with the microsite content could be quickly updated to target the Plan's distinct populations and provide the flexibility to try out communication strategies without going through a lengthy process in updating the general website. He stated that Voya had created microsities with other deferred compensation plans.

Mr. Ciranna asked how microsites work with other plans. Mr. Powell responded that the State of Missouri's plan has a microsite focused on education and has informational materials and videos that explain the benefits of their plan. He indicated Missouri's microsite works side-by-side with their main third-party administrator website. Mr. Montagna stated that the microsite would benefit both active and retired employees and additional efforts can be made to provide information to retired employees about topics such as distributions. Mr. Ciranna asked if Voya had any challenges with creating these microsites for other entities. Ms. Williams responded that Voya had not experienced any challenges with creating the microsites, releasing information to participants, and updating content.

For the second Plan enhancement, Mr. Powell discussed creating video-based content. He stated that in partnership with Voya staff is developing a communications and engagement strategy by creating short videos on Plan topics. He indicated this would supplement the Plan's current communications offering and help the Plan reach a wider audience.

For the third Plan enhancement, Mr. Powell discussed the strategy of developing a social media presence on platforms participants are already using. He indicated that several plans have developed a social media presence and staff is reaching out to those agencies for their feedback. He stated that staff would return to the Board at a future meeting with a proposal regarding social media.

For the fourth Plan enhancement, Mr. Powell stated a dedicated money-in and money-out processing team has just created with Voya. He stated the City's Plan has become increasingly complex, with customized processes for rollovers, loans, different money contributions, and unlimited flexibility for distributions. He explained that typically third-party administrators have large processing teams to handle transactions for all their clients; however, due to the size of the City's Plan and customized processes, Voya created a dedicated team for the City's participants. He stated that this team, which went into effect in March 2018, will focus on the Plan's transactions and provide better results in resolving issues quickly and producing fewer errors in completing transactions.

For the fifth Plan enhancement, Mr. Powell discussed the call center quality assurance process. He stated that the call center is a primary method used by participants in interacting with the Plan, and that in order to ensure a quality customer service experience Voya had implemented a new process at the conclusion of each call whereby participants are asked by the customer service representative if they are satisfied with how the call was handled, and if their issue was resolved; if the participant is not satisfied, he or she will be asked if they would like to provide contact information so that the City's local counselors can reach out to provide further assistance. He stated that if the issue is not resolved by the local counselors, it can be elevated to higher levels. Mr. Powell indicated that Voya had built a tracking log for participant issues, and a report is shared between the local counselors and Plan staff for participant follow-up.

For the sixth Plan enhancement, Mr. Powell stated that to begin an ongoing process of measuring the effectiveness of customer service efforts, staff had worked with Voya to develop a satisfaction survey focusing on participant interactions. He stated that survey results would help the Plan evaluate areas of success and opportunities for improvement. He stated results would be provided to the Board once the data is compiled and analyzed.

For the last Plan enhancement, Mr. Powell indicated staff is developing a more robust means of monitoring and evaluating Voya's performance by developing new data sets and metrics. He indicated that expanded monitoring and evaluation represents another way staff is working to measure and expand upon the Plan's success. He stated that options on how to present this information to the Board are being evaluated and it may be included in a recurring report or part of Voya's quarterly Plan review.

Following this discussion, a motion was made by Mr. Guglielmo, seconded by Mr. Schoonover, that the Board of Deferred Compensation Administration receives and file the report regarding Third-Party Administrator ongoing service enhancements and customization for the City's Deferred Compensation Plan; the motion was unanimously adopted.

9. BOARD REPORT 18-18: PLAN DOCUMENT REVIEW

Mr. Hirose presented this report. He indicated that staff is requesting Board approval to work with Segal Consulting, Voya Financial, and the Board's legal counsel to review and propose revisions to the Plan Document and refer the revisions to the Plan Governance & Administrative Issues Committee. He stated that one of the strategic initiatives identified by the Plan for 2018 was a review and update of the Plan Document. He stated that a periodic review of the Plan Document is necessary due to changes and refinements to administrative rules and processes, as well as to verify compliance with current Federal rules and regulations. He indicated the last update to the Plan Document was made in June 2015 adopting revisions regarding the Automatic Enrollment Program and allowing in-Plan Roth conversions for active participants. Lastly, he explained that the calendar lists target dates for the review by the consultants. He stated that staff anticipates the Plan Governance Committee would convene after July 2018. Mr. Ciranna stated that before the revised Plan Document goes before the Board, members should have ample time to thoroughly review the updates, but that it was time for a Plan Document review.

Following this discussion, a motion was made by Mr. Schoonover, seconded by Ms. Macy, that the Board of Deferred Compensation Administration (a) direct staff to work with Segal Consulting, Voya Financial, and the Board's legal counsel to review and propose recommended revisions to the City's Plan Document; and (b) upon completion of proposed Plan Document revisions, refer those revisions to the Plan Governance & Administrative Issues Committee to develop recommendations for action by the Board; the motion was unanimously adopted.

10. BOARD REPORT 18-19: SPECIAL ELECTION – LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM (LACERS) PARTICIPANT REPRESENTATIVE

Mr. Hirose reported on the Special Election for the LACERS Participant Representative seat and requested Board approval for Plan staff to work with the City Clerk to administer a special election on June 22, 2018, to fill the vacancy created by Michael Amerian leaving the Board. He stated that based on the Board's Election Policies & Procedures the Board shall designate a date of the election no more than 90 calendar days after notification of the vacancy, and that staff was proposing an election date of June 22, 2018. He stated that the special election follows the same process as a regular

election, with one exception to the nominating petition, which will include language that this is for the balance of the term and ends on June 30, 2020. He stated interested candidates must be a contributing member to LACERS and an active participant in the Plan. Mr. Ciranna asked if the City Clerk had agreed to the June 22nd date, which Mr. Montagna confirmed.

Following this discussion, a motion was made by Mr. Schoonover, seconded by Mr. Thomas, that the Board of Deferred Compensation Administration (a) approve a request to the City Clerk to administer on behalf of the Board a special election on June 22, 2018, to fill the Board of Deferred Compensation Administration seat for the Los Angeles City Employees' Retirement System Participant Representative; and (b) direct Personnel Department staff to work with the City Clerk on drafting and disseminating communications and coordinating the election process; the motion was unanimously adopted.

11. BOARD REPORT 18-20: PLAN REIMBURSEMENTS FOURTH QUARTER 2017

Mr. Vong reported that adjustments were made to the calculations of indirect costs for the quarter ending September 30, 2017, and applied the balances owed to the reimbursements for the quarter ending December 31, 2017. He stated Board approval was requested for the reimbursements as indicated in the report for the Personnel Department and Office of the City Attorney.

A motion was made by Mr. Cannon, seconded by Mr. Guglielmo, that the Board of Deferred Compensation Administration approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$141,344.73 and City Attorney for \$25,534.01 for the quarter ending 12/31/17, including prior quarter adjustments to indirect cost calculations; the motion was unanimously adopted.

12. BOARD REPORT 18-21: PLAN PROJECTS AND ACTIVITIES REPORT

Mr. Hirose reported on the Board's 2018 Elections for the Retired Participant Representative and the DWP Active Participant Representative seats. He stated that Eugene Canzano and Thomas Moutes applied for the Retired Participant Representative seat and Hovhannes Gendjian applied for the DWP Active Participant Representative seat. He stated ballots were scheduled to be mailed out on April 25, 2018, with Election Day scheduled for May 11, 2018.

Mr. Hirose reported on the status of the Automatic Enrollment Program and that Plan staff discussed with Voya representatives, including their legal counsel, the regulatory and logistical considerations related to the proposed process to auto-enroll newly sworn Police members of the Los Angeles Police Protective League (LAPPL). He stated that Voya confirmed that they could accommodate the proposed process and that staff is waiting to meet with the LAPPL to review and obtain their input regarding the proposed process. Mr. Montagna commented the LAPPL process would be outside of the normal process to maintain address confidentiality with the sworn population.

Following this discussion, a motion was made by Mr. Cannon, seconded by Ms. Schoonover, that the Board of Deferred Compensation Administration receive and file the monthly activity report for March 2018, to include updates regarding Governance; Current Projects; Completed

Projects/Meeting Calendar; Staffing; and Committee Assignments; the motion was unanimously adopted.

13. REQUESTS FOR FUTURE AGENDA ITEMS

The next meeting is scheduled for June 19, 2018. The Board did not make any specific requests for future agenda items.

14. ADJOURNMENT

The meeting adjourned at 10:18 a.m.

Minutes prepared by staff member Kevin Hirose.