

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
SPECIAL MEETING DECEMBER 22, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Cliff Cannon, First Provisional Chair
Raymond Ciranna, Third Provisional Chair
Linda P. Le
Wendy G. Macy
Robert Schoonover
Don Thomas

Not Present:

Michael Amerian, Vice-Chairperson
Thomas Moutes, Second Provisional Chair

Staff:

Personnel:	Gregory Dion	Steven Montagna	Alexandra Castillo
	Esther Chang	Paul Makowski	Matthew Vong

City Attorney: Miguel Dager

1. CALL TO ORDER

John Mumma called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Robert Schoonover, seconded by Raymond Ciranna, to approve the October 20, 2015 Regular Meeting minutes; the motion was unanimously adopted.

Cliff Cannon arrived to the meeting at 9:10 a.m. and was not present for the approval of the minutes.

4. BOARD REPORT 15-56: TPA RFP, SURVEY, EVALUATION CATEGORIES, & DRAFT SCOPE OF SERVICES

Steven Montagna provided the Board highlights from the Third Party Administrator (TPA) survey results. He indicated there were 1,600 responses, which was approximately 4% of total Plan participants. Mr. Montagna also noted that most participants indicated they were aware of the website, call center, quarterly statements and the local service center. He ranked, from highest to lowest, the awareness of services and features of the Plan and highlighted that 84% of survey respondents were aware of the Retirement Income Projection Calculator. He noted that more than half of respondents were not aware of the exemption from the 10% early distribution penalty for sworn personnel. Ray Ciranna asked if those responses could be broken down by sworn and civilian personnel. Mr. Montagna stated that could be done.

Mr. Montagna continued his review and reported on metrics pertaining to the level of participant confidence in the Plan as well as their own secure retirement. He noted these were significant metrics that should be measured over time. He stated approximately 90% of respondents indicated they were confident of a secure retirement, and indicated it would be interesting to compare and contrast this metric on a national scale. Mr. Montagna presented participant responses pertaining to the prospect of adding additional services to the Plan and noted one of the most significant was participant interest in investment advice and/or financial planning services. He stated 83% of respondents stated they would be interested in the service, but the interest decreased to less than 50% if they had to pay for the service. He additionally stated that based on the comments received from Plan participants, there was an interest in greater personalized assistance and advisory services. He noted that though the Plan may ultimately not implement such services, the survey comments were indicators that the Plan should inquire about these potential features in the TPA RFP in order to assess vendor capabilities and the types of services they can offer.

Mr. Montagna continued his review and explained how the survey informed the RFP. He stated there was increased usage of the website in order to accomplish transactions and access information about the Plan. He noted that quarterly statements were also one of the primary ways participants were getting information about the Plan. He concluded his survey review by stating that staff planned to report the results of the survey to participants in the next quarterly newsletter.

Mr. Ciranna requested that staff consider additional services and communications related to passive and active funds benchmarking within the Plan, particularly given that the Plan has now transitioned to custom funds that have blended active and passive components. Mr. Montagna agreed and indicated staff would discuss with the Plan's investment consultant.

Mr. Montagna continued with the second portion of his report related to the TPA RFP and presented the proposed questionnaire, evaluation categories and process, and Plan profile/scope of services. He stated the bulk of the information exchange would be

in the questionnaire. He indicated another method of evaluation would be an alternative version of performance exams. He stated performance exams provided an opportunity for valuable interactions with the vendors on issues that may not be readily apparent in a written response to an RFP. He stated staff was additionally contemplating inclusion of problem resolution essay questions. He stated these were situational questions pertaining to Plan issues and designed to provide greater illumination as to how vendors respond to and rectify problems.

Mr. Montagna presented the Plan Profile & Scope of Services attachment included with the report. He stated the attachment provides vendors information relevant and helpful to evaluating the Plan's needs, and would aid in the decision-making process as to whether potential vendors would be interested in submitting a proposal. He then reviewed the proposed categories for the RFP. He stated the RFP evaluation categories would be weighted more towards participant services and overall communications. He stated it was crucial that the Plan determine whether vendors are able to communicate effectively with participants, with an emphasis on effective service delivery.

Mr. Montagna reviewed the Financial Cost category and proposed the weighting of this portion of the RFP be set at 15%, which was lower than previous evaluation weightings. He indicated this allowed for more emphasis to be placed on participant communications and service. He also noted that potential bidders have been able to drive down price points, and as such little variation was expected among the anticipated fee proposals. Mr. Mumma asked about those evaluation categories that had their weighting score increase so as to offset the decreased weight of the Financial Cost category. Mr. Montagna indicated the recordkeeping element and organizational strength currently had a higher weight.

Mr. Ciranna indicated he wanted additional detail in the section for Error Correction and Restitution Policies contained in the Scope of Services attachment. He indicated that a firm's policies related to error correction and restitution highlighted the firm's integrity and accountability to participants and requested staff to provide more details. He also stated that the evaluation weighting related to self-directed brokerage might be too high given overall Plan usage of the brokerage window, and recommended that this category be reduced from 15% to 10%, with the 5% to be added to the "Organizational Strength, Recordkeeping, & Plan Sponsor Services" category.

Don Thomas asked if the Plan had spoken to other Plan sponsors regarding the quality of the services offered from different vendors. Mr. Montagna stated he does communicate to other Plan Sponsors to obtain general feedback. He noted however that within an RFP, it is important the evaluation process is transparent and neutral, thus ensuring the scoring and rating is strictly tied to the review of a vendor's proposal. He stated the only exception to that would be when staff administers reference checks during the evaluation process.

Linda Le asked how prominently the issues of cybersecurity had been addressed in the RFP. Mr. Montagna confirmed that cybersecurity was a prominent issue and was being addressed in the RFP questionnaire. Ms. Le also asked staff to be aware of any contracted staff that might be located overseas, as she had experienced during an outside procurement. She also suggested staff conduct site visits in order to gain a realistic overview a potential vendor's work environment. Mr. Montagna indicated staff's recommendation was to have bidders participate in onsite performance exams rather than conduct a site visit. He stated it is staff's view that this process would reveal more about the proposer's knowledge and experience than a pre-arranged and guided site visit, which would also require significant staff time and Plan resources.

Mr. Ciranna asked if vendors would be requested to provide demos of their systems during the performance exams. Mr. Montagna stated that the RFP will ask for "dummy" account access to vendor systems. He noted that staff had yet to develop the details of the performance exercise, but stated it would be focused on participant experience as well as issues currently experienced by the Plan.

Mr. Mumma asked that the Board be apprised of any substantial updates with the RFP. Mr. Ciranna asked whether the Board would have additional opportunities to comment. Mr. Montagna stated staff would incorporate the feedback received and report back to the Board at the January meeting, at which time the Board could provide additional feedback. He stated that to stay on schedule, the RFP would have to be approved by the February Board meeting in order to meet the Plan's objective of rendering a decision by mid-year.

A motion was made by Mr. Schoonover, seconded by Wendy Macy, to receive and file this report and update regarding development of the Deferred Compensation RFP for Third-Party-Administration and participant survey results; the motion was unanimously adopted.

5. BOARD REPORT 15-57: DEFERRED COMPENSATION PLAN STABLE VALUE FUND SUB-ADVISORS

Mr. Montagna began his presentation by stating that there were issues that needed resolution as the Plan moved to finalize the investment manager services contract with Galliard Capital Management (Galliard). Mr. Ciranna asked if a representative from Mercer Consulting, the Plan's investment consultant, was present at the Board meeting. Mr. Montagna stated Mercer had been originally scheduled to attend the regular meeting but had not been available to attend the special meeting; he stated there was limited time availability to schedule the special meeting. Mr. Ciranna requested that staff ensure that the Plan's investment consultant be present in the future when the Board considers investment related matters.

Mr. Montagna provided background regarding the Plan's Stable Value Fund (SVF). He then reported on specific changes to its underlying portfolio, as recommended by

Galliard. He stated Galliard was recommending a change to the manager of a portion of the intermediate asset pool from Prudential Investment Management to Jennison Associates. He stated Galliard also provided notice that the Wells Fargo Short-Term Investment Fund (STIF) was replacing its cash manager with Blackrock. He stated both of these changes were reviewed by staff and the Plan's consultant, Mercer. He indicated Mercer's analysis and feedback was included as an attachment to the report and that Mercer was supportive of the change. He noted Galliard's explanation for the change was also included with the report. He stated the sub-advisor changes would effectively create small changes in the overall expense ratio of the fund, but noted that based on Mercer's and Galliard's analysis, the fund's performance was expected to still outweigh the anticipated increase in fees. He further indicated that if the change to Jennison Associates was not implemented, Galliard and Mercer had indicated that a higher fee increase was anticipated as Galliard was moving most of its clients out of the Prudential portfolio, which would decrease Galliard's ability to leverage costs.

Mr. Montagna stated the changes effectively caused the Plan to review the practices which stemmed from the old contract in terms of the Board's role during the decision-making process for choosing sub-advisors. He stated in the past, there was language in the contract which required approval from the Board before Galliard could make a change to one of the sub-advisors. He stated after further review with Mercer and Galliard, it was staff's view that the management of the SVF was no different than the management of a mutual fund. He noted that in a mutual fund, a plan sponsor investor does not have any discretion, control or approval authority over decisions the mutual fund manager makes in terms of any sub-contractor relationships or other management decision that could affect the fees or the performance of the fund. He stated that in concurrence with Mercer's assessment, as well as industry practice, staff viewed it as logical for the Plan and the Board to approach its relationship with Galliard in the same manner as it pertains to selecting an investment sub-advisor for the Plan's SVF.

Mr. Montagna stated staff wanted to obtain consensus from the Board with respect to the new contract with Galliard, and how the language should reflect this broader role. He stated that Galliard would be responsible for bringing any changes to the attention of the Plan so that staff can inform the Board. He noted that if the Board was dissatisfied with Galliard's decisions, it would be within its authority to renegotiate or terminate the contract.

Mr. Montagna explained that the fiduciary role of the Board includes the process of selecting and overseeing Galliard as a fund manager for the Plan. He further explained that the selection of a sub-advisor would in fact be a responsibility of Galliard as the manager of the fund. He stated that Assistant City Attorney, Curtis Kidder, was actively working with staff in drafting and approving the language of the contract.

Mr. Ciranna asked whether the risk profile of the Stable Value Fund was changing since the new sub-advisor indicated that they had a more actively managed approach to investing. Mr. Montagna stated it was his understanding that it was being managed in

the same way, and he noted that any risk in losing monetary value of the fund would be absorbed by insurance companies, which is the purpose of the wrap agreement.

Mr. Thomas commented that in looking at the new portfolio composition managed by the new sub-advisor Jennison Associates, he noticed there was a significant decrease in investments of mortgage backed securities. Mr. Montagna stated Galliard manages 85% of the overall investments in the SVF and indicated Jennison's portfolio composition only included of a small portion of those investments.

Mr. Ciranna asked when the sub-advisor change would occur. Mr. Montagna responded by stating the change would occur on January 15, 2016. Mr. Ciranna asked if there was a communication plan to notify the Plan participants of the change. Mr. Montagna indicated that the Plan is not mandated to do so, and has not made it a practice since the overall fund fee fluctuates when it is impacted by the costs of underlying sub-advisor managers, wrap agreements, and even participant assets invested in the fund. He indicated that the fund fee is reported on investment performance sheets that are produced regularly by the Plan.

Ms. Le asked if there was urgency to act on this item. Mr. Montagna stated that if the Board took no action on the item, the Plan would continue to keep funds with the incumbent fund manager in a much smaller asset pool, and administration costs could be expected to increase. He stated that premise of this report focused on whether fiduciary decision-making relative to selecting sub-advisors would be assumed by the Board or if it was more appropriate to delegate the authority to Galliard.

Mr. Ciranna asked if Galliard had agreed to the language in the contract. Mr. Montagna stated that the language was being reviewed, but that Galliard had recommended the initial language. Mr. Ciranna requested that the Board be updated if Galliard did not approve the contract. Mr. Mumma stated he agreed with the assessment that Galliard should have discretion over its selection of sub-advisors as the Board is not a party to the underlying contracts. He acknowledged Mercer's formal analysis and he noted that fees could double if no action was taken. He then asked for the new contract to be brought before the Board for additional review and discussion at a future meeting.

A motion was made by Cliff Cannon, seconded by Don Thomas, to find that Galliard's changes to managers of the intermediate asset pool and Short-Term Investment Fund (STIF) are justified within the scope of Galliard's discretion as the SVF manager; the motion was unanimously adopted.

A second motion was made by Mr. Cannon, seconded by Mr. Schoonover, to direct staff to proceed with incorporating language in the new contract with Galliard indicating that Galliard is solely responsible for fiduciary management decisions, including the selection of sub-advisors, as well as providing the City's Plan with timely notification of changes to sub-advisors; the motion was unanimously adopted.

6. BOARD REPORT 15-58: INDIRECT REIMBURSEMENTS AND CAP RATE

A motion was made by Mr. Ciranna, seconded by Mr. Thomas, to receive and file an update regarding staff's ongoing review of the reimbursement methodology for the calculation of indirect salary costs for the Deferred Compensation Plan; the motion was unanimously adopted.

7. BOARD REPORT 15-59: 2015 NATIONAL RETIREMENT SECURITY CAMPAIGN RESULTS

Esther Chang provided the Board a summary of the Plan's annual campaign for National Retirement Security Week during the month of October 2015. She reviewed the marketing components of the campaign which included creation of a flyer, a microsite, time portal quizzes, a website banner and a campaign video. She noted that one of the campaign's objectives was to encourage participants to envision their retirement in their actual reality. She indicated that during the campaign, the total monthly sessions of the Retirement Income Projection Calculator increased from prior months, web logins to the Plan site as well as phone call volume increased by 21% and 20%, respectively, from the previous month. Ms. Chang also reported that the campaign's survey response increased from the previous year. She concluded by stating that the campaign was successful in achieving its objectives.

A motion was made by Mr. Cannon, seconded by Ms. Macy, to receive and file staff's update regarding the 2015 National Retirement Security Week; the motion was unanimously adopted.

8. BOARD REPORT 15-60: PLAN PROJECTS & ACTIVITIES REPORT

Ms. Chang presented the staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects for the months of October and November. She stated staff worked on marketing for National Retirement Security Week. She noted staff had also released a Plan participant survey, the feedback of which would be used to assist staff in developing the RFP document for the Plan's upcoming TPA procurement. She stated staff revised the Annual Limits Flyer which had already been disseminated to participants and noted that the contribution limits for 2016 would remain unchanged from 2015. She indicated staff had been working with the Los Angeles Fire & Police Pensions to coordinate efforts for several sworn officers who would be retiring and exiting the Deferred Retirement Option Program (DROP) in early 2016.

Ms. Chang transitioned to the operations portion of her report and stated the In-Plan Roth Conversion option had been available for participants for approximately two months. According to Ms. Chang, seven participants had used the option to date. She stated staff had met with several of the Plan's investment managers for new introductions and fund updates during the month of November. She indicated staff had met with the Controller's Office to discuss payroll programming in attempts to make headway in adding the auto-enrollment program to their priority list of pending projects. She stated staff was conducting year end reviews of participant eligible contribution amounts and catch-up enrollments.

Ms. Chang informed the Board that staff continued to work on the TPA RFP. She provided updates on pending contracts and indicated that the language for the Bank of the West and Mercer contracts had been finalized and were currently awaiting approval from the Mayor's Office. She stated the Galliard contract language had some outstanding issues that would need to be resolved with Mercer.

Ms. Chang continued her report and notified the Board that staff would be seeking to fill the Plan's Benefits Specialist vacancy. She reminded the Board of mandatory online ethics training, which was required to be completed by February 1, 2016. She reported that the November issue of Public Management Magazine featured the Plan's concept of "lifestyle income replacement". She stated the article referenced Mr. Montagna's presentation at the June 2015 Retirement Security Summit, sponsored by the Center for State & Local Government Excellence. She concluded her report by stating that the Plan won several MarCom awards for the designs of the Quarterly Newsletters and Department of Transportation Targeted Enrollment Campaign marketing materials.

Mr. Mumma requested that in the future, the Board receive copies of informational and/or marketing materials distributed to the participant population and noted that it would help keep Board members informed of current projects worked on by Plan staff. He stated it could also potentially help bring forth additional questions, conversation and/or insight. Mr. Mumma also asked about the delay in the process for implementing the auto-enrollment program. Mr. Montagna stated the Controller's Office currently had an ongoing list of pending requests and had limited resources and staffing. As such, projects were being prioritized. He indicated staff would further update the Board at its January meeting.

A motion was made by Ms. Le, seconded by Mr. Thomas, to receive and file staff's update on Plan projects and activities during October & November 2015; the motion was unanimously adopted.

9. REQUESTS FOR FUTURE AGENDA ITEMS

None.

10. FUTURE MEETING DATES – January 19, 2016

11. ADJOURNMENT

A motion was made by Mr. Schoonover, seconded by Mr. Ciranna, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:40 a.m.*