

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

MINUTES
MEETING OF OCTOBER 18, 2005 – 9:00 A.M.
700 E. TEMPLE, ROOM 350

Board Members:

Present:

Shelley Smith, Chairperson

Joya De Foor, Vice-Chairperson

Richard Kraus

Bill Stein

Maggie Whelan

Javier Romero

Not Present:

Don Keith

Staff:

Personnel: Maryanne Keehn, Personnel
Steven Montagna, Personnel
Fernando Campos, Personnel
Richard Bobb, City Attorney

1. CALL TO ORDER

The Vice-Chairperson called the meeting to order at 9:12 a.m.

2. PUBLIC COMMENTS

John Hill of the Department of Water and Power (DWP) stated that he first wanted to compliment the Board and Steven Montagna in providing excellent plan information on the Web Site. Mr. Hill indicated that the Web Site provides resourceful information about the operating expenses and fees of the plan. Mr. Hill stated that the information provides the ability to make an analysis of the information and the ability to understand the nature of the plan.

Joya C. De Foor thanked Mr. Hill for speaking and asked if there were any additional public comments. There were no additional public comments.

3. MINUTES

Ms. De Foor asked for a motion to approve the July 19, 2005 minutes. **A motion was made by Maggie Whelan and seconded by Bill Stein, approving the minutes of the July 19, 2005 meeting; the motion was unanimously adopted.**

Richard Kraus indicated that he had some corrections to the August 16, 2005 minutes. The amendments were as follows:

- Page 4, 2nd Paragraph, 1st sentence: change phrase from “Fee Rebate” to “Fee Levels”
- Page 5, 5th Paragraph, 1st sentence: change sentence from “Mr. Kraus asked if the City Council reported on Mercer Consulting contract extension” to “Mr. Kraus asked if the City Council had approved the Mercer Consulting contract extension.”
- Page 6, 1st Paragraph: Add that Mr. Kraus asked why the survey could not be made available online and the response was that the survey was a scannable document and could not be appropriately printed as a download.”
- Page 6, 2nd Paragraph, 3rd sentence: add after increase “length of time to”

Bill Stein concurred with Mr. Kraus’ amendment to Page 6, 2nd Paragraph. Ms. De Foor asked for any additional comments. **A motion was made by Maggie Whelan and seconded by Bill Stein, approving the minutes of the August 16, 2005 meeting as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: WASHINGTON MUTUAL

Milt Bledsoe, Vice-President and National Sales Director, and Brian Dodge, Government Investment Manager, both with Washington Mutual Bank (“WAMU”) were present to review performance data for the City’s Deferred Compensation Plan. Mr. Bledsoe began by stating that it had been almost three years since he was last in front of the Board, specifically June 26, 2003. Mr. Bledsoe indicated since the last time he was present, WAMU had made some changes and met their prior commitments. Mr. Bledsoe continued by explaining that the packet submitted to the Board talks about promises made and promises kept. Mr. Bledsoe indicated that WAMU is FDIC insured, has over 300 municipal employers with total deposits of over \$900 million as of September 30, 2005, and offers two investment options: the Liquid Savings Account and Certificates of Deposits (CD’s).

Mr. Bledsoe discussed how the City’s Deferred Compensation account funds of \$146 million are being invested. Mr. Bledsoe indicated that over \$113 million are in the Liquid Savings Account and over \$33 million in CD’s as of June 30, 2005, which represents approximately 7.19% of the total Plan assets. Mr. Bledsoe wanted to note that participants in the plan currently are receiving a discretionary bonus at a rate of 58 basis points more than the portfolio performance as of the 4th Quarter in 2005. Mr. Bledsoe further indicated that the average lifetime performance of the fund since its inception date on May 15, 1974 has been 7.45% and has performed at a very high rate. He indicated that it has helped that WAMU had paid 10% interest at inception.

Mr. Bledsoe continued to briefly compare by category between the WAMU Deferred Compensation CD versus other retail CD's. He concluded his portion of the presentation and asked if any of the Board Members had any questions.

Mr. Kraus asked if WAMU could provide benchmark indexes to help Board members compare how WAMU products are performing against the industry. Mr. Bledsoe replied that at the present time, WAMU is the only provider that offers this type of product, therefore, it is hard to compare them to the competition. Mr. Kraus asked about providing average rates for Money Market or CD's in the banking industry. Mr. Bledsoe replied that he did not have those rates with him at the present time but was sure that the rates are competitive with those of the market and that he was confident of the rates. Mr. Kraus responded that although Mr. Bledsoe was confident it would still be useful to have the information. Mr. Bledsoe indicated that he would forward the requested information to Mr. Montagna when he returned back to his office.

Mr. Bledsoe introduced his colleague, Brian Dodge, to complete the final portion of the presentation. Mr. Dodge began by noting that City participants in the WAMU option are currently receiving 3.75% as opposed to 3.17% because WAMU is the only bank that offers this type of liquid product. Mr. Dodge indicated that WAMU is involved in their communities, and believed in human interest and giving back to their communities. Mr. Dodge indicated that the City of Los Angeles is a big community and a big portion is returned back. In fact, WAMU was rated a fortune "Big Ribbon" company in 2004.

Mr. Dodge briefly discussed that WAMU is recognized in the industry as a company that cares about its employees and the constituents in the community. He indicated that WAMU has various lending and investment commitments, which include lending programs and a long-term commitment to award at least 15% of its supplier contracts to women-owned, minority-owned, and/or disabled-owned businesses. Mr. Dodge indicated corporate and employee giving totaled over \$9 million, including programs such as the Committed Active Neighbors (CAN) program, United Way Volunteer Work, Cash Grant Awards, and the American Heart Walk.

Ms. Smith indicated that she very much appreciates the community involvement and diversity. She indicated that many other investment managers would like to be good corporate citizens but do not necessarily have good track records. Mr. Dodge indicated that WAMU is grateful for the opportunity to speak to the Board and the relationship with the City. Mr. Dodge commended Mr. Montagna for his excellent work and for keeping WAMU informed.

5. BOARD REPORT 05-28: PLAN SURVEY

Mr. Montagna indicated that the Administrative Issues Task Force, Mercer (Plan Consultant), and Plan staff have been working on the Plan survey intensively over the last three months. Mr. Montagna commended the task force for their commitment to the process, involvement, and feedback. Mr. Montagna indicated that this has been a wonderful process and complemented Mercer for their excellent work. Ms. Smith asked

if Mr. Montagna could include the names of the individuals that are part of the task force for future recognition. Mr. Montagna replied that he could and continued by indicating that the Plan survey is completely on track in terms of scheduling. Mr. Montagna indicated that several steps were taken to come up with the final survey. These steps included revising the survey and conducting a pre-test, which went well. Mr. Montagna concluded by informing the Board that the survey was open for discussion and comments. Mr. Montagna reminded the Board that if major changes are needed to the survey, the changes may cause the survey schedule to be pushed back.

Ms. Smith indicated that she appreciated the questions on the survey concerning automatic enrollment and a default option. Ms. Smith added that she would support the idea of automatic enrollment and believed that this would provide for greater participation. She also indicated that she was mindful not to delay the process. Mr. Stein indicated that a lot of good work had been done on the survey and asked Mr. Montagna what is the hope and expectation of the participation levels in terms of response. Mr. Montagna deferred to Jason Jaross of Mercer Consulting to address Mr. Stein's questions. Mr. Jaross indicated that they expected the response rate to be between 20% to 30%. Mr. Jaross further indicated that typically with a benefits-only survey you get about a 50% response rate but when you only survey a particular benefit the response rate would be about half of 50%. Mr. Jaross added that even a much smaller response rate would give the Plan a good representative sampling.

Mr. Kraus indicated that the photocopies received were not clear and receiving a pdf version was helpful. Mr. Kraus indicated that he was not sure if the Board was considering asking about the number of investment options available and that the response options to question number 12 were not parallel of benefit to cost. Mr. Kraus continued by indicating that wording of the introduction to the survey may have some biases in terms of its description of services versus cost.

Mr. Montagna indicated that in preparing the survey the task force wanted to get a general sense of what participants want, without necessarily asking participants to make detailed policy decisions. Mr. Montagna asked if the Board would like to come up ways to word the introduction differently.

Ms. Smith indicated that there were various alternatives in trying to gauge the various appetites of the membership in terms of paying for services. Ms. Smith indicated that there may be some strata of people that are willing to pay for services under \$100 and others that are willing to pay more for other types of services that are more expensive. Ms. Smith further indicated that it would be nice to know if some participants are willing to pay more for those additional services but the survey should also try to capture various appetites for those services that may have a cost. Mr. Kraus indicated that he was unclear if the survey addressed that.

Joya De Foor indicated that she had the same concerns with the cover letter and asked if the survey invited participants to identify themselves and how to provide additional feedback. Mr. Jaross replied that the survey is confidential and that additional comments are welcomed and should be mailed to the address at the end of the survey.

Mr. Kraus indicated that question #15 was not clear as to what was meant by automatically and if question #18 gave participants the ability to change the amount. Ms. Whelan indicated that the question is trying to get an idea as to whether or not participants are interested in automatic enrollment. Mr. Stein indicated that the answer could be rephrased to say "at a minimum" instead of "level." Javier Romero asked legal counsel if there were any legal issues with automatic enrollment. Richard Bobb indicated there are no legal issues but also that there is pending legislation to make it mandatory. Ms. Smith indicated that as maturation levels increase and external efforts push forward, it would be great to have a policy and process in place.

Mr. Kraus asked if it would be a good idea to ask about the number of years participants are away from retirement. Mr. Jaross indicated a challenge with that type of question is that people sometimes may not have an idea when they will retire and the confidence level in the response may not be high. Ms. Whelan asked what would be the downside of asking. Ms. Smith asked if the plan can draw from its own experience because the plan has a data set to rely on that tell us what participants are doing versus what they feel they might do. Mr. Montagna asked if the Board was asking staff to add or remove a question. Ms. Whelan urged that a new question be added.

Mr. Romero asked if there were any changes to be made on the cover introduction letter. Ms. De Foor indicated that perhaps we were predisposing the participants in the way the introduction associated higher levels of services with higher cost. Mr. Montagna indicated that while this was not uniformly true, in general more services equals greater cost. Ms. De Foor indicated that she agrees that personalized services may cost more. Mr. Stein indicated that on the cover letter we could say fewer service options as opposed to simpler. Ms. Whelan suggested eliminating the words "education and" in the 3rd paragraph. Ms. Whelan further indicated that the entire Board should agree with the survey because the survey results will be used in creating the RFP.

Following this discussion, **a motion was made by Bill Stein, seconded by Richard Kraus, approving as amended the release of the Plan participant survey; the motion was unanimously adopted.**

6. BOARD REPORT 05-29: PLAN CONSULTANT REQUEST FOR PROPOSAL ("RFP")

Mr. Montagna indicated staff was recommending re-selecting Mercer Investment Consulting ("Mercer"). Mr. Montagna indicated that the Mercer response was the only one received that was able to meet the broad needs of the plan. Mr. Montagna indicated that staff had noted a concern in the report regarding the structure in terms of fees and that those fees would gradually increase throughout the contract. Mr. Montagna indicated that staff would talk to Mercer about this concern. Mr. Montagna further indicated that in the future it would make sense to explore the feasibility of having more than one consultant, depending on the project, which may provide leverage to hold fees in line.

Ms. Smith opened this item for discussion. Mr. Stein asked if Mr. Montagna was the only rater and if the rating was based on exclusive written material and/or an oral interview. Mr. Montagna indicated that yes he was the only rater and the rating was exclusive to written material only with no interview. Mr. Stein indicated that it was his understanding that staff was asking for a three-year contract with a maximum contract amount for \$300,000 for the 3-year period. Mr. Montagna replied yes. Mr. Stein indicated that the evaluation was very thorough but asked if there was any consideration given to having an additional rater, such as another staff member, consultant, or outside City expert. Mr. Montagna indicated that because of the current contract expiration date at the end of calendar year 2005 and the need to have a new contract in place quickly, only one rater had been used.

Mr. Kraus asked about the level of disclosure of relationships with other vendors that are required by those responding to the RFP. Mr. Montagna replied by referring the Board to the discussion section of the report and indicated that this was a particular issue with Mercer given its size. Mr. Bobb indicated that any City contract includes a conflict of interest code that provides some protections. Mr. Bobb further indicated that at any time the Plan found out about any conflicts, this would provide grounds to exit the contract. Ms. De Foor asked if the RFP had an exclusivity clause. Mr. Montagna indicated yes.

Ms. Smith stated for the record that all holdings of her husband's former 401K, which was held by the parent company of Mercer, were all liquidated at least a year ago. Ms. Smith indicated that based on her consultation with the City Attorney's Office there was no impediment to her voting on this matter.

Following the discussion, a motion was made by Bill Stein, seconded by Maggie Whelan, approving the selection of Mercer Investment Consulting, pending negotiation and agreement on the final contract terms and conditions, and authorizing the Board Chairperson or Vice-Chairperson to execute the contract; the motion was unanimously adopted.

7. BOARD REPORT 05-30: BOARD COMMITTEES

Ms. Smith began by indicating her support for the concept, indicating that having committees really professionalizes the governance of the Board and that many of the retirement systems have this type of structure. Mr. Kraus indicated that he appreciated the concept of committees but was concerned about time conflicts or workload issues and asked if the committees would be on a volunteer basis. Ms. Whelan indicated that individuals willing to participate would do it on their own time. Mr. Romero asked for clarification if the committees will include non-members of the Plan.

Mr. Bobb indicated that if the committees were going to be standing, then the meetings are subject to the Brown Act and he would have to be present in those meetings. Mr. Bobb further indicated that if the committees were ad-hoc then they would not be

subject to the Brown Act and no minutes would need to be created. Ms. Smith indicated that the idea of a committee structure is an important part of governance and that the Los Angeles City Employee's Retirement System ("LACERS") has committees that meet either before or after regularly scheduled meetings. Mr. Stein indicated that he supported the concept of committees but the Board should be mindful of two items: (1) limitations of staff and time; and (2) whether the committees would be made up of all Board members or one Board Member and all others would be participants. Mr. Stein further indicated that if participants would be a part of the committees, a considerable amount of time would be needed. Mr. Stein asked if the committees would only make recommendations to the Board and would the Board ultimately make the decision. Mr. Bobb replied that is correct unless the Board specifically allocated authority to the committees.

Ms. De Foor indicated that she believed in the value of committees but did not agree on the idea to have non-Board members because they do not have fiduciary responsibility and asked if the Board should create standing or ad-hoc committees. Ms. Smith indicated that the Board should look at creating committees whether standing or ad-hoc. Mr. Montagna indicated that in terms of an Investment committee, he would like to look at some sort of committee structure start sooner rather than later. Ms. Whelan stated that she believed the Board should really move forward with the Plan Governance Committee as well given the importance of making progress on ethics issues.

Ms. Smith indicated that the Board should move forward in creating two ad-hoc committees, one on investment planning and one on governance. Ms. Smith indicated that the ad-hoc committee could specifically address the needs of the plan and discuss the option of a standing committee. Ms. Smith asked if any of the Board members would have an objection to being appointed to an ad-hoc committee. Mr. Romero indicated that the DWP retirement system was in the process of appointing a new person to the Board. Ms. Smith asked for any other objections.

Following the discussion, **a motion was made by Maggie Whelan, seconded by Bill Stein, approving the creation of two ad-hoc committees: (1) investment planning and (2) governance; the motion was unanimously adopted. After approval of the item, Mr. Romero requested to re-open the item to change his vote; the motion carried with five ayes (Smith, Whelan, Stein, Kraus, and De Foor) and one nay (Romero).**

8. BOARD REPORT 05-31: DWP ANNUITY PROGRAM

Ms. Smith indicated that this report addressed concerns expressed by participant John Hill at a prior meeting. Ms. Smith asked Mr. Romero if DWP is aware of the LACERS larger annuity program. Mr. Romero indicated that this concept is currently being discussed. Following the discussion, **a motion was made by Bill Stein, seconded by Javier Romero, to receive and file the report; the motion was unanimously adopted.**

9. BOARD REPORT 05-32: TRUST FUND REIMBURSEMENT 06/30/05

Mr. Montagna indicated that this report is a routine item for the Board. He stated that the Administrative Fee Trust Fund was the repository for the fifty-cent fee paid by Plan participants to fund the City's internal administration of the program. Ms. De Foor requested removal of all references to the City Treasurer, since the Treasurer does not have any control of the fund, from all future trust fund reports. Mr. Stein asked Mr. Montagna if staff was concerned with the decrease in the surplus. Mr. Montagna replied that he was not, but that a fuller discussion of Plan resources and funding was being prepared for next month's meeting. **A motion was made by Joya De Foor, seconded by Bill Stein, approving reimbursement from the Deferred Compensation Plan Trust Fund #896 to the Personnel Department for \$50,469.05 for the quarter ending 06/30/05; the motion was unanimously adopted.**

10. BOARD REPORT 05-33: NAGDCA CONFERENCE

Ms. Whelan indicated that the conference this year had been quite informative. Ms. Smith stated that it appeared to be very educational. Ms. De Foor indicated there was a typographical error on the report and asked staff to remove an additional zero in the year 2010.

Following the comments and correction, **a motion was made by Bill Stein, seconded by Javier Romero, to receive and file the report as amended; the motion was unanimously adopted.**

11. GREAT-WEST QUARTERLY STATISTICAL REPORT

Rick Kramer and Usha Archer of Great-West Retirement Services ("GWRS") presented the 2nd quarter 2005 Plan statistics. Mr. Kramer indicated that he would present the report relatively quickly. He began by indicating that Plan assets ended at a little over \$2 billion. He indicated that 2nd quarter total Plan participants increased to 34,779, with 325 newly enrolled participants. He further indicated that the net cash flows continued to be the greatest in the Hartford General Account due to transfers from other investment options. He stated that the comparison of asset distribution by asset class followed the same pattern as seen in the 1st quarter: Pre-Mix Funds, Small/Mid-Cap Blend, and International Funds increased while Large Cap and Fixed Bank Funds decreased slightly. Mr. Kramer concluded that the average deferral amount decreased slightly in the 2nd quarter and that the average account balance as of the end of the 2nd quarter was \$58,497.

Ms. Archer continued the presentation by discussing local office activity. She indicated that the local office had over 15,000 participant contacts during the 2nd quarter and that as of the end of the 2nd quarter the year-to-date participant contact was 30,172. She continued by indicating that GWRS has increased the number of meetings to about 30-

40 per month. Ms. De Foor asked if GWRS could coordinate a new employee orientation for the Office of the Treasurer. Ms. Archer replied that she would contact the office to set up the meeting. Ms. Archer reviewed the types of meetings held, the departments represented in those meetings and the number of attendees, individual counseling sessions, and local office phone call activity. Ms. Smith indicated that she appreciated that GWRS attended labor union meetings, appreciated the attendance of the GWRS local representatives during late hours, and thanked GWRS for being proactive.

Ms. Archer continued the presentation by discussing the administrative overview. She indicated that the report illustrates the forfeiture account at slightly more than \$1 million. Ms. Smith asked if GWRS could start naming the forfeiture account as the reserve account. Ms. Archer replied yes. Ms. Archer stated that the total fees that were credited to the Plan were \$139,346.91. Ms. Archer continued to discuss a summary of the types of distribution approved during the 2nd quarter including the amount and percentage of all distribution requests. Ms. Archer further illustrated the year-to-date rollover amount coming in to and out of the Plan and compared calendar year 2005 to 2003 and 2004.

Ms. Whelan asked if GWRS had any guidance of those participants that were in the Deferred Retirement Option Plan ("DROP"). Ms. Archer replied that GWRS as the record keeper is working with Fire and Police Pensions in keeping the DROP enrollees informed about Deferred Compensation, since in about two years approximately 700 DROP enrollees would leave the program. Ms. Whelan asked if GWRS was communicating with DROP participants their ability to roll DROP money into the Plan. Ms. Archer replied they have in individual counseling. Maryanne Keehn indicated that staff is currently working on addressing this more systematically. Ms. Smith indicated that staff should speak with Board Member Don Keith and Cliff Ruff of the Los Angeles Police Protective League ("LAPPL") on this matter. Ms. Whelan indicated that staff should accelerate its efforts. Mr. Montagna indicated that this topic is included in the NAGDCA report as an action item. Ms. Keehn indicated that Mr. Campos worked in the DROP program and has knowledge about DROP.

Mr. Kraus asked if GWRS could add to the KeyTalk and Internet Statistics the number who have changed their contribution via the web or phone and add the number of users who use the web site for education purposes. Mr. Kramer indicated that the change in contribution could be added but adding information about education may be difficult but he would look into that. Mr. Stein asked in terms of participant contact and comparing the City to other large clients of GWRS, does the City have the same, more, or less amount of contact than those other clients do. Ms. Archer indicated that compared to the County, the City has less contact because of the County's larger size. Ms. Smith asked if the County of L.A. offers a match in their Plan and do they have automatic enrollment. Ms. Archer stated yes to the match and that the County was considering automatic enrollment.

12. HARDSHIPS

Ms. Smith indicated that Case No. 05-15 was submitted for informational purposes only and that Case No. 05-16 needed approval. **A motion was made Bill Stein, seconded by Maggie Whelan, approving a full hardship distribution in Case No. 05-16; the motion was unanimously adopted.**

13. NEXT MEETING DATE: NOVEMBER 15, 2005

14. ADJOURNMENT

Ms. Smith indicated that Mr. Romero might not be on the Board as of next month. Mr. Romero stated that it had been a pleasure to work with everyone. **A motion was made by Maggie Whelan, seconded by Bill Stein, to adjourn the meeting; the motion was unanimously adopted and the meeting adjourned at 11:26 a.m.**

* Minutes prepared by Staff member Fernando Campos