CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
AUGUST 22, 2017
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:	**Not Present:**
John R. Mumma, Chairperson	Linda P. Le
Michael Amerian, Vice-Chairperson	Thomas Moutes
Cliff Cannon, First Provisional Chair	Robert Schoonover
Raymond Ciranna, Second Provisional Chair	
Wendy G. Macy, Third Provisional Chair	
Don Thomas	

PERSONNEL DEPARTMENT STAFF
Jody Yoxsimer – Assistant General Manager
Steven Montagna – Chief Personnel Analyst
Matthew Vong – Management Analyst
Daniel Powell – Personnel Analyst
Leonard Hyman – Management Assistant

OFFICE OF THE CITY ATTORNEY
Curtis Kidder – Assistant City Attorney

MERCER INVESTMENT CONSULTING
Devon Muir – Principal
Ana Tom-Chow - Associate

1. CALL TO ORDER

John Mumma called the meeting to order at 9:04 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Raymond Ciranna, seconded by Wendy Macy, to approve the June 20, 2017 meeting minutes and the July 18, 2017 meeting minutes; the motion was unanimously adopted.

4. BOARD REPORT 17-30: 2017 NATIONAL RETIREMENT SECURITY WEEK CAMPAIGN

Daniel Powell presented staff's recommendations for the 2017 National Retirement Security Week Campaign. He stated that each year the United States Senate passes a resolution for National Retirement Security Week (NRSW) in order to help American workers focus on the importance of saving for and maintaining a secure retirement. He indicated the Plan has historically taken this opportunity to organize a NRSW campaign to promote engagement, awareness, and successful outcomes for Plan participants.

Mr. Powell stated because NRSW will occur shortly after the Third-Party administrator (TPA) transition, staff recommended leveraging the opportunity to increase participant engagement with their resources. He further indicated the campaign would include content developed by the National Association of Defined Contribution Plan Administrators (NAGDCA), including a promotional video featuring several City employees. He indicated current employees and active participants would receive a citywide email communication and retired participants would receive a postcard, and that staff was seeking a Mayoral endorsement.

Mr. Powell reported that this year's campaign would focus on encouraging participants to establish online account access for the new Plan website. He stated that fully accessing the Plan's new features and services requires that participants establish online access. He indicated that staff recommends establishing a gift card drawing similar to past campaigns for all participants who establish online access during the month of October, including those who enroll for the first time, with a maximum expenditure of $2,500 for gift cards.

A motion was then made by Mr. Ciranna, seconded by Mr. Schoonover, to approve staff's proposed promotional strategy for the 2017 National Retirement Security Week campaign, including the provision of $2,500 for gift card incentives for participants establishing online account access during the month of October. The motion was unanimously adopted.

5. PLAN INVESTMENTS QUARTERLY REVIEW

Devon Muir presented the Defined Contribution Plan Performance Evaluation Report for the second quarter of 2017. He indicated he sees three broad themes, with the first theme being that large-cap funds outperformed small-cap funds, with the S&P 500 up 3.1% for the quarter compared to the Russell 2000 up 2.5%. He indicated a second theme is that growth stocks tended to outperform value stocks. He said a similar theme could be seen in the smaller-cap spectrum. He indicated the market is rewarding higher-growth sectors, like healthcare and information technology.

Mr. Muir indicated the final theme was the higher performance of international stocks outpacing U.S. stocks, with the benchmark MSCI EAFE up 14% year-to-date. He indicated the Plan's International stock option has exposure to emerging markets, with the MSCI EM index up 6.3% in the quarter and over 18% on a year-to-date basis. He indicated international returns were driven partly by fundamentals, because valuations had been beaten down, but also because the value of the US dollar has depreciated. He said a third to half of the returns for international stocks was due to currency depreciation.

Mr. Ciranna asked if Mercer saw any equalization with regard to growth vs. value stocks. Mr. Muir said that in a normal cycle, after the bottom of a recovery, value stocks tend to perform well, but towards the end of the cycle investors tend to flock towards growth. Mr. Mumma asked about the impact of terrorism on the market. Mr. Muir indicated typically those events do not have a lasting impact on markets, and that selloffs typically occur but six to nine months later markets often recover or exceed the previous high. Mr. Mumma asked if an attack occurred in Spain whether that would impact European stocks. Mr. Muir said that in a case like that, it would typically impact the entire Eurozone.

Mr. Muir indicated that the assets for the quarter closed at $5.8 billion, an increase of $151 million quarter-over-quarter. He stated that of that amount, $124.9 million was due to investment gains, with the average account balance at nearly $128,000.

Mr. Muir stated Mercer conducts due diligence on behalf of the Plan for Plan investment managers. Ana Tom-Chow reported that Eduardo Repetto, Co-CEO and Co-CIO of DFA, had resigned, and been succeeded by Gerard O'Reilly to be Co-CEO alongside Dave Butler. She indicated that Mercer researchers did not think that this change would impact the firm's strategies. Mr. Muir noted that Marcus Smith, lead portfolio manager at MFS Investment Management, had departed last year, which put the firm under a higher level of scrutiny, but Mercer still had conviction in the firm's strategy. He stated that Bill McNabb had recently left Vanguard but he did not anticipate that would impact the firm's strategy.

Mr. Muir then indicated that the Deferred Compensation Stable Value Fund had almost 19% of Plan assets, the DCP Large Cap Stock Fund 31% of assets, and the Plan's Profile Funds 18.2% of assets. He indicated the Plan has seen a relative underweight of international equity at 4%. He next reported that the Plan's net expense ratio was well below the median, and that on a weighted average, total plan costs including administration are 25 basis points.

Mr. Thomas asked Mr. Muir if the number that Mr. Muir cited for international equity included allocations in the risk-based portfolios. Mr. Muir said it did not, and that within the risk-profile portfolios there was additional exposure. Steven Montagna requested that future reports include a chart that also shows that breakdown.

Mr. Muir indicated the DCP Stable Value Fund continues to provide meaningful cash returns compared to the FDIC performance. He stated that as interest rates rise, the FDIC option will be more immediately responsive to interest rates, but that in the last quarter the Stable Value Fund returned 50 basis points and in the last year 2%. He indicated the FDIC-Insured Savings Account had yielded returns below 25 basis points for an extended period of time, but now it was above 1%, which was more competitive. Mr. Muir stated the DCP Bond Fund represents 3% of assets and for the quarter matched the benchmark at 1.4% return.

Mr. Mumma asked for clarification regarding what constitutes the bulk of the Plan's international equities. Mr. Muir said that DFA is 17% of the portfolio and explicitly focuses on emerging markets exposure, but in the market, roughly 25% of stock tends to be within emerging markets. He said this may seem like underweighting, but both MFS and Brandes have emerging markets, so it ends up being roughly 25% weighting.

Mr. Thomas asked for explanation about Brandes' underperformance for the last few periods. Mr. Muir described Brandes as a bottom-up stock picker with a valuation focus. He stated that Brandes' approach may not always be rewarded in a market that tends towards defensive stocks.

6. BOARD REPORT 17-28: FDIC-INSURED SAVINGS ACCOUNT PROCUREMENT

Mr. Powell provided the Board with background regarding the Plan's FDIC Insured Savings Account. He indicated the fund is designed to preserve principal while producing interesting earnings derived from investments in bank depository savings accounts. He stated the current underlying providers of the FDIC Fund are Bank of the West and East West Bank with each providing up to $250,000 of FDIC insurance to participants. He reported that as of August 11, 2017, assets in the fund totaled approximately $329 million. He indicated the fund is ideally intended to operate with three underlying providers.

Mr. Powell reported that on April 8, 2014, the Board issued a Request for Proposal (RFP) for provider services for this option and received responses from East West Bank and Bank of the West. He stated that at its July 2014 meeting the Board approved the selection of both providers, but that without a third RFP response, a third provider could not be selected. He stated the Board subsequently approved conducting an independent search for a third provider, and that at the time Union Bank expressed interest but also had questions related to the City's general contracting requirements. He stated that at its March 8, 2016 meeting, the Board approved staff's recommendation to select Union Bank as the third provider for the Plan's FDIC Insured Savings Account and instructed staff to negotiate a draft contract. He indicated negotiations proceeded slowly, specifically with regards to the City's general contracting requirements, and that due to the length of the negotiating time and a lack of responsiveness from Union Bank, staff believes it is no longer in the Plan's interest to continue negotiations with Union Bank and recommended that the Board approve terminating contract negotiations. He indicated the interest rate environment has evolved and that bank may have a greater willingness to take on deposits, and that issuing a new procurement would assist the City in negotiating a contract by securing bidder acceptance of the City's general contracting requirements as a condition of submitting a proposal.

Mr. Powell stated that staff recommends the Board authorize staff to draft for its review a new RFP for FDIC-Insured investment service providers. He indicated that contracts with incumbent providers will expire in September 2019 and staff intends to provide options for the Board to execute contracts for all three providers pursuant to this procurement.

Mr. Mumma asked if the negotiation issues with Union Bank pertained to the City's general contracting requirements. Mr. Montagna responded affirmatively. Mr. Mumma asked if staff recommended continuing to utilize only two providers until the completion of the next RFP process for all FDIC insured investment providers, at which time the Plan hopes to implement three providers. Mr. Montagna responded affirmatively and stated that if the procurement process moves quickly enough, it would be possible to implement a third provider sooner. Mr. Mumma asked what the likelihood would be of that occurring. Mr. Montagna indicated he thought this was likely. Mr. Muir added that when East West Bank was added, the process was less than one-year long. Mr. Mumma asked if the Plan needs to issue a communication to participants who would be affected by an increase in FDIC insurance coverage. Mr. Montagna responded that it would not be necessary as those participants were already informed that the Plan would continue with only two providers and they were not told to expect the addition of a third provider. Mr. Ciranna asked if any participants made a change because of this. Mr. Montagna responded that, to his knowledge, no changes had been made. Mr. Ciranna asked if the environment is going to be more enticing for vendors. Mr. Muir indicated he had reached out to several banks and there appeared to be increased interest.

Mr. Ciranna expressed concern that the City of Los Angeles may not be an inviting client for some vendors due to its contracting process and recent conflict with Wells Fargo. Mr. Montagna responded that if the RFP doesn't yield many responses, the Plan is able to partner with Mercer to conduct an independent search. Don Thomas asked if Union Bank has any recourse as a result of the process of the recommended Board action. Mr. Montagna responded he had already communicated with Union Bank and they understood. Mr. Kidder stated that the City had made no commitment to the bank and so the bank had no recourse.

A motion was then made by Mr. Ciranna, seconded by Mr. Thomas, to (a) approve terminating the contract negotiation process with Union Bank to be the third provider for the Plan's FDIC-Insured Savings Account; and (b) authorize staff to draft for its review and approval a Request for Proposal (RFP) for FDIC-Insured Savings Account investment service providers; the motion was unanimously adopted.

7. BOARD REPORT 17-29: THIRD-PARTY ADMINISTRATOR TRANSITION UPDATE

Mr. Montagna introduced Michelle Williams, Jim Gullak, and Scott Hudson from Voya who provided a demonstration of the City's website. Mr. Hudson began by stating that one of the reasons Voya was excited to work with the City was because of its clear focus on retirement readiness. He said Voya had introduced a similar approach in 2014, using easy-to-use sliders that make it easy to take action. He said the retirement readiness calculator makes it easy for participants to determine their anticipated retirement income. He acknowledged that this meant modifying Voya's calculator to reflect the City's definition of retirement readiness as 100% replacement of lifestyle income. He stated this also meant creating future-dated deferrals as well as a resource center for former employees. Mr. Hudson then walked the board through screenshots of the website, including:

- Login page
- Security features
- Multifactor authentication
- Plan alerts
- Homepage
- Targeted messaging
- Retirement calculator, including City modifications
- Navigation menu
- Distribution options
- Investment options
- Investment performance
- Loan modeling
- Existing loans
- Plan Information, for both active and termed employees
- Life events page
- One-time contribution
- Enrollment
- Beneficiary alert

Mr. Mumma asked, since the Plan is changing its URL, what would happen when current participants visit the current URL after it is phased out. Mr. Gullak responded that participants would continue to have access to their old accounts until April 2018. Mr. Mumma asked whether the fund balance displayed differentiated rollovers, pre-tax, post-tax income. Mr. Hudson said that, yes, they would be differentiated. Mr. Thomas asked if the contributions were a component of calculation of the rate of return. Mr. Hudson said, no, it would be based specifically on investment returns.

Mr. Ciranna asked if the slider would warn people if a rate of return was unrealistic. Mr. Hudson said rate of return would be auto-populated, but, yes if customized by the participant it would turn red to warn users that their inputs may not be realistic. Mr. Mumma asked if Voya would receive feedback from the website if users attempted to use it in ways it was not intended to use. Mr. Hudson said, yes, some of Voya's best features come from user feedback, and they are able to monitor what a user does on the site.

Mr. Mumma asked if Voya would include information in the calculator for the member's pension. Mr. Hudson said, yes, it would be tailored to LA's defined benefit plans. Mr. Mumma asked if it would include windfall elimination. Mr. Hudson said participants would need to calculate this for themselves, but once they saved that data in their account it would be there moving forward. Mr. Ciranna asked it that could be an enhancement to the website. Mr. Hudson said Social Security would be turned off but participants would be able to add it back in themselves.

Mr. Mumma asked if the "Make Change" button would differentiate between pre-tax and post-tax dollars. Mr. Hudson stated that the "Other Contributions" option would enable different contributions. Ms. Macy stated she has had difficulty managing multiple accounts due to participating in different pension plans and retirement savings accounts. She asked for clarification on how Voya intends to handle that kind of complexity. Mr. Hudson said the best option would be to encourage participants to roll over those amounts into the Plan. However, he said, participants can add in other income sources even if not being able to do account management directly from the Voya site. Mr. Mumma asked if the calculator could include expected ongoing retirement benefits from outside sources. Mr. Hudson indicated it could.

Mr. Thomas asked if pension information would be entered by the user. Mr. Hudson stated the pension formula would be received by a third party based on public information, so participants would not need to add themselves. Mr. Thomas asked if it would include additional contributions. Mr. Montagna said, no, it would not be built in, but members could add themselves. Mr. Amerian asked if the calculator would take into account divorces and division of pensions. Mr. Hudson said participants would need to add that kind of adjustment manually. Mr. Montagna indicated staff and Voya would be working on this post-conversion.

Mr. Ciranna asked about cost of living adjustments for annual benefits. Mr. Hudson said they would need to be input manually. Mr. Mumma asked if the website would automatically update the approved pension increases. Mr. Hudson said, yes, it would be reflected in the calculator. Mr. Mumma asked if it would be possible to advise participants about the long-term impact of taking a loan calculator, and Mr. Hudson said it would.

Mr. Thomas asked if the loan calculator differentiated between pre-tax or post-tax dollars. Mr. Hudson said it did not. Mr. Thomas suggested an educational tool could be useful in that respect. Mr. Hudson said that there are educational resources available within the site.

Mr. Mumma asked about the information that the site provides regarding healthcare. Mr. Hudson said Voya provides a number of tools and calculators regarding the cost of healthcare. Mr. Ciranna asked if it was possible to make changes to that tool since City employees receive subsidies for healthcare. Mr. Montagna said that there have been discussions on that and further discussion would occur post-conversion, but for the interim the healthcare piece would not be displayed.

Mr. Mumma asked about paper processes that could soon be handled online. Mr. Hudson said distributions were a good example of this. Mr. Montagna said Voya's distribution request process was much improved over the current paper process and makes it much easier to understand. Mr. Cannon asked if Voya would provide information for Required Minimum Distributions on an annual basis. Mr. Gullak said it would, and it would issue participant payments if participants did not take action.

Mr. Thomas asked if the site would include the Self-Directed Brokerage Option. Mr. Hudson said that it would be reflected in the account balance. Mr. Mumma asked if a participant fell off the payroll for a period of time would they need to re-establish their contributions. Mr. Montagna said this should be controlled by the payroll systems, not Voya.

Mr. Montagna then provided more information on the transition. He said that regarding the status of testing of conversion items by Voya, most of the conversion data elements have been received and tested, with just a few pending completed testing. He described two participant functions that Empower administers but Voya does not support. He said the first is one that allows participants to transfer of a balance out of one investment option to another over a period of time. He added that there are only 19 participants using this, and that staff is in the process of reaching out to them and advising them of their options.

Mr. Montagna said Empower's programming allowed participants to provide fractional investment allocation instructions, so that participants could designate that a particular investment option would receive some fraction of a percent, such as 0.5% of a new contribution. He said Voya's system does not support this. He stated there are only nine participants who have fractional investment elections on file. He stated staff is reaching out to these individuals as well so that they can modify their investment allocations accordingly.

Mr. Montagna said that the transfer of archived statements is running behind schedule because Empower is having challenges in meeting the Plan's deadlines. He said that if the

Plan needs to push back the launch of this by a few weeks that staff did not see this as a major concern, as there are very few participants who actually are looking for those older statements at any given time, and in the meantime participants will have full access to their Empower accounts and records through the end of this calendar year.

Mr. Montagna said that regarding data interfaces, the process is proceeding with testing of automated files. He said one of the issues the Plan needed to resolve had to do with providing participant addresses to Voya. He said that currently participants do self-updates with the TPA for address changes. He said that going forward, for the civilian population, the Plan will be able to automatically feed address changes with the City's payroll system to the TPA so participants won't have to make the change twice. However, he said sworn addresses are masked within the payroll system because there are certain individuals in both the Police and Fire populations who need to maintain confidentiality. He said, as a result, staff resolved that these addresses will not be transferred to the TPA, which is essentially continuing the status quo for these populations. He said this shouldn't really impact voluntary enrollment efforts, as the Plan signs up most of these individuals in the training phases of their employment. He said it will require a workaround in order to implement auto enrollment on a pilot basis with the Police Protective League, but the League has indicated they think this is workable.

Mr. Montagna reported that contract development is proceeding on schedule. He noted development of a data security agreement significantly more detailed than prior confidentiality agreements in City contracts. Mr. Ciranna asked when the contract was expected to be executed. Mr. Montagna said he expected to finalize the language by the end of the month, which allowed for a month to execute. Mr. Ciranna asked if there were any major sticking points. Mr. Montagna replied none at this point.

Regarding communications, Mr. Montagna reported, per the request of the Board, Voya will be issuing correspondence to the City's labor organizations to help maintain a good dialogue with them as part of the transition. He stated staff was also recommending the Board take certain action relative to share class changes. He indicated that as a result of reviewing the Plan's various investment managers and their availability on the Voya fund platform, three share classes were identified whereby the Plan would be able to secure lower net-cost share classes of identical funds. He stated that Plan participants retain all revenue sharing from fund providers, and because the fund managers are used in multiple options, this would lower the net cost of eight investment options. He indicated that Mercer projects this would reduce the Plan's overall average net fee cost from 25 to 24 basis points, which works out to about half a million dollars. He noted that this represented approximately 28% of the overall TPA contract cost of $1.8 million, a significant savings. He also noted that with respect to the Ridgeworth Mid-Cap Value Equity Fund, which would have had a higher net cost after revenue sharing under Voya, staff was able to negotiate with Ridgeworth to maintain current revenue sharing by executing a separate agreement.

A motion was then made by Mr. Cannon, seconded by Mr. Amerian, to receive and file staff's update regarding the Deferred Compensation Plan's Third Party Administrator (TPA) transition; the motion was unanimously adopted. A second motion was then made by Mr. Ciranna, seconded by Mr. Thomas, to approve replacing existing share classes for the Natixis Loomis Sayles Core Plus Bond Fund, Voya Mid-Cap Opportunities Fund, and Hartford Small Cap Growth Fund with share classes "Y," "Portfolio I," and "IB," respectively; the motion was unanimously adopted.

8. BOARD REPORT 17-31: PLAN PROJECTS & ACTIVITIES REPORT

A motion was made by Mr. Amerian, seconded by Mr. Cannon, to receive and file staff's update on Plan projects & activities during July 2017; the motion was unanimously adopted.

9. REQUESTS FOR FUTURE AGENDA ITEMS

None.

10. NEXT REGULAR MEETING DATE – SEPTEMBER 19, 2017

11. ADJOURNMENT

A motion was made by Mr. Amerian, seconded by Mr. Thomas, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 11:04 a.m.

Minutes prepared by staff members Daniel Powell, Leonard Hyman, & Matthew Vong