

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING MAY 19, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Cliff Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Ray Ciranna, Third Provisional Chair
Robert Schoonover
Wendy G. Macy
Linda P. Le

Not Present:

Michael Amerian, Vice-Chairperson

Staff:

Personnel:

Alejandrina Basquez
Steven Montagna
Alexandra Castillo

Esther Chang
Paul Makowski
Matthew Vong

City Attorney: Curt Kidder

1. CALL TO ORDER

John Mumma called the meeting to order at 9:08 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Ray Ciranna, seconded by Wendy Macy, to approve the April 21, 2015 Regular Meeting minutes; the motion was unanimously adopted.

4. BOARD REPORT 15-26: DEFERRED COMPENSATION PLAN METRICS AND PLAN ADMINISTRATOR STATISTICAL QUARTERLY REVIEW 03-31-15

Steven Montagna presented a new draft metrics document to the Board, which was presented with Empower Retirement's Quarterly Report. He stated the purpose of the new metrics report was related to the broader topic of benchmarking, and he indicated the intent of the document was to change how the Plan should look at measuring success. He stated it was his hope this process would enable the City's Plan to compare data with national benchmarks. He indicated the National Association of Government Defined Contribution Administrators (NAGDCA) was working on a national benchmarking initiative that was intended to pull in common data from various State and local plans.

Mr. Montagna walked through some samples of the metrics report and pointed out the differences in how the data was analyzed in the past. He presented the status of average account balances and stated that staff would like to shift its focus to further analyze the median account balance. He noted however that NAGDCA currently did not have that statistic from its membership. He stated it was staff's hope that the NAGDCA initiative would lead to eventually obtaining similar data from its member plans so the City would have national benchmarks to compare against.

Mr. Mumma asked whether this project was something that was happening in the near future or if it would be implemented over the course of a long process. Mr. Montagna stated the process was ongoing and the NAGDCA Board had recently issued a Request for Information in order to look for firms that would be able to collect the data and generate reports. He indicated the NAGDCA Board would have to hire a vendor that would build a process to reach out and obtain this information.

Mr. Montagna reviewed asset allocation statistics for the Plan and noted the importance of tracking this data over time in order to analyze shifting trends. He stated the Plan wanted to analyze these numbers more deeply because they are important indicators of participant success over time. He then discussed the Plan's current participation rate and the net growth of participation in the Plan.

Mr. Montagna stated staff was building a spreadsheet designed to combine data obtained from the City's payroll system and from Empower's recordkeeping system in order to estimate individual retirement income replacement percentages. He stated this data would be an indicator of whether a participant was on track to achieve retirement income security. He stated this was a key measurement and expressed his personal dream was to have other comparable governmental retirement plans utilize this calculation as well. Mr. Montagna also presented data on participant fees, and he added that monitoring the combined impact of fees as a percentage of overall Plan assets could be an indicator of the Plan's success.

Mr. Montagna finished his report and highlighted data regarding participation engagement and localized personal contacts with local Empower Retirement

counselors. He emphasized the importance of this number and stated this was where people engaged with the plan, determined their risk tolerance and accomplished transactions. He stated the level of one on one engagement was probably a key explanation for the number of ways the City seems to outperform other average state or local plans. Mr. Mumma asked what attributed to such an increase in personal engagement with Plan representatives and staff. Lisa Tilley, National Accounts Director at Empower Retirement, stated the City had been doing a great job of marketing the Plan and noted that the City allows Empower counselors to be in the same office with Plan staff, which was another key to the Plan's success. Ms. Joan Watkins, Client Relationship Director with Empower Retirement, commented that the rate of participation in the City's plan was phenomenal, due in large part to engagement.

Ms. Macy asked how difficult it was to extract this data given that the ultimate goal was to develop a national benchmarking initiative that would require buy-in from other similar plans. Mr. Montagna stated for certain core categories, the information should be readily available for extraction. He noted that an initial limited rollout of key data items was more workable than if extensive statistics were requested.

Ms. Watkins commented that Mr. Montagna's presentation was significant because the Plan is attempting to refine the definition and measurement of success for a defined contribution plan and its participants. She then began her review of the Plan Overview section of the quarterly report and highlighted assets, contributions and participant account balances in the Plan. She indicated assets had grown over 2% from the previous quarter. She stated contributions increased substantially by 26.5% quarter over quarter, which was attributed to participants accelerating their contributions at the beginning of the year. She indicated assets in Roth balances increased by 14%. She indicated overall assets in the Plan had shown a growth of 225% over the past 14 years. She stated contributing participants were up by 1.5%, and 390 new participants were added during the first quarter. She indicated average deferral rates increased and stated the median account balance went up slightly along with participant Roth accounts increasing by 8.7%.

Mr. Mumma asked whether the non-contributing participant statistics could be broken down to retired participants and active participants. Ms. Watkins stated that could be done. She continued her report and stated there was notable movement in money between the SSgA Small Russell Cap and the DCP Small Cap Funds due to the recent fund changes. She noted the Self-Directed Brokerage Option (SDBO) continued to gain popularity with its number of participants increasing by 3.5%. Mr. Ciranna asked whether there was a way to determine the rate of return for those participants that were utilizing the SDBO. Mr. Montagna stated that information could be determined by plugging the asset information into a formula.

Mr. Mumma stated there may be some participants giving out their account login information to third party account managers to monitor their investments. He asked if there was a way to determine how many were doing so. Ms. Tilley indicated there was no way of tracking those occurrences, as it meant the participant was providing their

personal log-in information. She noted there is a disclosure that must be approved before participants may create a SDBO account.

Ms. Watkins continued to report on the contributions statistics of the Plan. She completed her report by reviewing average account balances which increased by almost 2% and noted that participants with over a million dollars in their account increased from 100 to 108 participants during the quarter.

Ms. Tilley provided an Administrative Overview of the Plan and stated there were a large number of retirement withdrawals. She indicated additional data had been included in the report pertaining to transfers to LACERS and participants taking withdrawals over the age of 60. She stated that 18 people had transferred their funds to LACERS and 1,857 participants over the age 60 were actually taking distributions. She reported that over \$30 million dollars was rolled into the Plan during the quarter, which was largely attributed to a significant amount of DROP money coming into the plan. La Tanya Harris of Empower Retirement stated that there were a large number of sworn employees that were scheduled or planned to exit DROP at the beginning of 2015.

Ms. Tilley reported on the loan overview for the Plan and indicated there was a total of \$183 million in outstanding loans with the average outstanding balance of over \$8,700. She indicated a total of 87 loans had defaulted in the first quarter of 2015 amounting to over \$674,000. She noted that the retiree loans continued to be popular with 54 new retiree loans added during the quarter. She concluded by indicating that over 25% of participants were currently receiving their quarterly statements online.

Ms. Harris reviewed statistics regarding participant contacts, meetings/facility visits, and group meetings. She indicated that Empower representatives had met with approximately 9,625 participants during the first quarter of 2015. She noted that many participants wanted to meet representatives in March to request loans for home purchases or to pay for taxes. She stated there was significant amount of table service conducted in the quarter and that there was an increase in the number of attendees at group meetings due to increased hiring by the City. She reported individual counseling sessions were significant for the month of March totaling 894. She concluded by reviewing the number of local office phone calls, which averaged approximately 1,700 per month during the quarter.

A motion was made by Cliff Cannon, seconded by Bob Schoonover, to receive, file and provide feedback on sample proposed quarterly metrics reporting data for the City's Deferred Compensation Plan; the motion was unanimously adopted.

5. BOARD REPORT 15-27: RECOMMENDED PROVIDERS: CONSULTING SERVICES REQUEST FOR PROPOSAL

Mr. Montagna presented staff's recommended selection of vendors for the City's Plan Consulting Services request for proposal (RFP). He stated the services contained within

the consulting umbrella were broken into three different categories, which consisted of administrative, investment, and communications consulting. He indicated the RFP was intended to give the Board the option to contract with more than one consultant if they wished and included the option to make multiple awards within those categories. He stated the recommended vendors were Segal for plan administration and design consulting and Mercer for investment consulting. He also indicated that staff recommended language be included within both contracts that would provide the Plan the flexibility to utilize either vendor for communications consulting services.

Mr. Montagna reviewed the evaluations and stated the highest rating went to Segal, which brought a great deal of organizational strength and institutional commitment in the defined contribution plan arena. He noted their lead consultant, Wendy Young, previously served as a consultant for the City's Plan spanning from the mid-1990s to the early 2000s. He stated Ms. Young possessed significant experience and noted that Segal employed a number of individuals who have been working with defined contribution plans for some time. He highlighted Segal's technical legal resources, which made them distinctive from the other firms. Mr. Montagna stated both Segal and Mercer were competitive on assisting deferred compensation plans with development of procurements and contracts and acknowledged that Mercer had the highest volume of contracts. He indicated Segal's fees were the lowest.

He stated performance exams were administered for each firm, which provided an opportunity for vendors to bring out their teams to discuss and provide analysis on potential scenarios and/or issues posed to them regarding the City's Plan. He stated the intent of this process was to get a sense of what it would be like to work with these consultants. He stated all of the vendors did very well in the administrative consulting portion of the performance examination, in particular Segal consulting.

Mr. Montagna continued his review of the evaluation of the investment consulting portion of the RFP and stated Mercer differentiated themselves from the other respondents by showing the depth of investment analysis resources they could offer and the comprehensiveness of their proprietary system for being able to track and report on funds. He indicated that in terms of their hourly fees, Mercer would be more expensive but noted the fact that their lower score for that component did not outweigh the general outperformance in all the other rated categories.

Mr. Mumma asked if the individuals who participated in the performance examinations would be the same people that the firms would assign as the actual consultants to the Plan. Mr. Montagna affirmed that to be the case.

Mr. Montagna continued by reviewing the communications consulting evaluations. He indicated the Plan had previously selected a communications consultant that did not meet performance expectations and therefore, was never utilized. He noted one of the things done at the time was to include a provision in the Mercer contract that allowed the Plan flexibility to utilize Mercer's consulting services if the Plan needed help with

certain communications projects. He stated staff would like to continue the same model and build in language for a communications consulting component for both contracts.

Ms. Macy stated she liked the idea of administering a performance exam rather than a structured interview and asked whether questions were provided to the proposers in advance. Mr. Montagna stated written questions were provided to the consultants immediately prior to discussing the topic. He stated this was done in order to simulate a real world situation in which a potential issue or question would be posed to a consultant with short notice. Paul Makowski stated that each firm was limited to the same amount of time in their responses. Mr. Montagna noted that each firm thought the performance exams were very innovative and said they would love to see this process conducted by other plans.

Mr. Mumma asked if the scoring and evaluation of this consulting RFP was consistent with other City RFPs. Alejandrina Basquez stated that it was consistent with RFPs done within the Employee Benefits Division and noted that a similar performance exam was conducted with their medical services RFP.

A motion was made by Mr. Schoonover, seconded by Ms. Macy, to select Segal Consulting to provide Administrative Consulting services to the Deferred Compensation Plan; the motion was unanimously adopted.

A second motion was made by Mr. Moutes, seconded by Mr. Ciranna, to select Mercer Investment Consulting to provide Investment Consulting services to the Deferred Compensation Plan; the motion was unanimously adopted.

A third motion was made by Mr. Cannon, seconded by Mr. Schoonover, to select Segal Consulting and Mercer Consulting to provide Communications Consulting services to the Deferred Compensation Plan; the motion was unanimously adopted.

A fourth motion was made by Mr. Ciranna, seconded by Tom Moutes to instruct staff to draft contracts for the selected providers and authorize the Board Chairperson to execute the contracts, subject to agreement between the City and the providers as to all applicable terms and conditions; the motion was unanimously adopted.

6. BOARD REPORT 15-28: FY 15/16 TRAINING ELECTIONS AND NAGDCA CONFERENCE UPDATE

Mr. Makowski reported on the training events available to Board members for the 2015-2016 fiscal year and requested that Board members notify staff of their preferences. He noted that the travel policy allowed for each member to attend one training event per year, but if there were a budget surplus, it was possible to have members attend more than one event if they wished to do so. He indicated that based on newly implemented

rules for the NAGCDA conference, all attendees were required to officially register for the conference before a hotel room could be reserved. He asked that the Board members who planned to attend the conference notify staff as early as possible so that arrangements could be made for conference registration.

A motion was made by Mr. Ciranna, seconded by Mr. Schoonover, to receive and file the information regarding conference and training events for Fiscal Year 2015–16 and information pertaining to NAGDCA conference registration changes; the motion was unanimously adopted.

7. BOARD REPORT 15-29: TARGETED ENROLLMENT INITIATIVE UPDATE

Esther Chang stated the Board had previously approved staff's recommendation during the previous month's meeting to develop a targeted enrollment initiative in order to achieve a goal of a 3% net increase to the overall employee participation rate in the Plan. She updated the Board on the pilot enrollment campaign targeting the Department of Transportation. She indicated a large group of classifications within the DOT not participating in the plan were Crossing Guards and Traffic Officers. She stated staff thought this was a unique opportunity to engage populations with similar job classifications that did not have a central location to report to on a daily basis. She then listed the components of the campaign which included establishing relationships with employee information gatekeepers, establishing in-person contact with DCP local representatives, sending out customized postcards, posting information on the participant website, sending e-mails, and posting to City bulletins. She stated staff would begin monitoring enrollment statistics monthly and would have updates to the Board on a regular basis. Mr. Mumma asked whether the cost of the mailing was already accounted for in the adopted budget for the year. Ms. Chang stated it would be taken from the communications budget with Empower Retirement, which was approximately \$100,000 for the year. She stated the anticipated cost of the postcard mailing for the targeted enrollment campaign would be less than \$1,000.

Ms. Macy stated that in addition to notifying personnel representatives, it would be advantageous to also notify the DOT General Manager. She offered her services to reach out and inform DOT's General Manager of the Plan's intent for this campaign. Mr. Cannon asked where the addresses would be obtained for the postcard mailings. Ms. Chang stated this information that could be pulled from the payroll system.

A motion was made by Mr. Cannon, seconded by Mr. Moutes, to receive and file staff's update regarding the Deferred Compensation Plan's Targeted Enrollment Initiative; the motion was unanimously adopted.

8. BOARD REPORT 15-25: PLAN PROJECTS & ACTIVITIES REPORT

Ms. Chang presented the monthly staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects. She stated a letter was sent out in April to participants invested in the DCP International Fund which provided information pertaining to its changes. She indicated staff was asked to present information related to the Plan and separation of service for outgoing Council employees. She stated staff had conducted a site visit to Empower Retirement headquarters in Denver on April 16th and 17th to review operations and discuss opportunities for improvement of work processes. She stated Empower and City staff had compiled a list of over 50 task items to help identify and improve work processes and noted the status of these items were being reviewed on a bi-weekly basis.

Ms. Chang stated that staff continued to work on implementing the Auto-Enrollment Program (AEP), and would present the new Plan document language to the Board at the next meeting for review. Ms. Chang reported on pending administrative projects and stated staff conducted the Consulting services search and completed its performance examinations and evaluations. She stated a draft contract was being developed for the Stable Value Manager selection. She stated staff continued to meet with the Controller's Office and the Administrative Services Division of the Personnel Department to address the Cost Allocation Plan (CAP) rates attributed to the Deferred Compensation Plan. She anticipated staff would have a recommendation to address the CAP rates soon.

Ms. Chang updated the Board on the elections, which was scheduled for May 22, 2015. She stated ballots were mailed, with approximately 8,700 ballots sent out for the Retired Participant Representative Seat and approximately 6,500 ballots sent out for the Active Participant DWP Representative Seat. She concluded her report by stating that Mr. Montagna would be presenting at an event sponsored by the Center for State & Local Government Excellence on June 9, 2015, with a focus on explaining the Plan's Retirement Income Projection Calculator.

A motion was made by Mr. Schoonover, seconded by Ms. Macy, to receive and file staff's update on Plan projects and activities during April 2015; the motion was unanimously adopted.

9. REQUESTS FOR FUTURE AGENDA ITEMS

None.

10. FUTURE MEETING DATES – June 16, 2015

11. CLOSED SESSION

The Board entered into close session such that Board Counsel Curtis Kidder could provide an update related to the matter entitled Estate of Francis Joseph Bolan (Los Angeles Superior Court No. BP 151381). Upon returning from Closed Session, Mr. Kidder reported no actions were taken by the Board related to this matter.

12. 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 10:44 a.m.*