

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JUNE 16, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Cliff Cannon, First Provisional Chair
Ray Ciranna, Third Provisional Chair
Wendy G. Macy
Robert Schoonover

Not Present:

Michael Amerian, Vice-Chairperson
Tom Moutes, Second Provisional Chair
Linda P. Le

Staff:

Personnel:	Alejandrina Basquez	Esther Chang
	Steven Montagna	Matthew Vong
	Alexandra Castillo	

City Attorney: Miguel Dager

1. CALL TO ORDER

John Mumma called the meeting to order at 9:09 a.m.

2. PUBLIC COMMENTS

Former Board Chairperson Eugene Canzano extended his congratulations to Cliff Cannon for his re-election to the Board. He expressed his gratitude for the time he served on the Board and affirmed his confidence in its current leadership. Mr. Mumma also congratulated Don Thomas and Mr. Cannon for having been elected to the Board.

3. MINUTES

Board action to approve the May 19, 2015 Meeting minutes was delayed until quorum was established. Mr. Mumma moved the meeting forward to item number 4.

After quorum was established, a motion was made by Mr. Cannon, seconded by Bob Schoonover, to approve the May 19, 2015 Regular Meeting minutes; the motion was unanimously adopted.

4. QUARTERLY INVESTMENT REVIEW

Devon Muir of Mercer Investments Consulting discussed the Deferred Compensation Plan's fund performance during the first quarter of 2015. He presented a broad overview of the first quarter and year-to-date capital market performance. He indicated large cap stocks had a muted performance during the period. He stated the market favored growth stocks over value stocks and noted that energy focused stocks fared poorly. He reviewed the performance of international equities, which began to outperform U.S. equities and noted the MSCI EAFE was up approximately 5%. He noted currencies had depreciated, which created a negative headwind for investors in international equities. He stated despite that there was still very strong performance in part due to easier monetary policies and valuations of international equities.

Mr. Muir reviewed the status of fixed income markets. He stated the Barclays Aggregate Index, which is comprised of investment grade bonds across various bond sectors, was up 1.6% for the quarter. He called attention to performance of energy stocks noting that S&P Goldman Sachs Commodity Index was down over 8% for the quarter. He continued his review showing the macro effects of currency during the quarter. He stated the key theme was that there was a general expectation that the Federal Reserve would raise rates sooner than other economies, which was leading investors to shy away from other currencies in favor of U.S. dollar assets.

Mr. Muir briefly discussed the U.S. equity market. He stated top performers were in healthcare and biotech stocks. Conversely, he stated the energy sector was down 2.3% for the quarter and 12% on a one year basis. Mr. Cannon asked why energy stocks were underperforming. Mr. Muir noted the U.S. had increased oil production over time, and the incremental level of supply coupled with the global slowdown, in particular from China and other emerging markets, have caused there to be more supply than demand.

Mr. Muir reviewed all the recent fund changes to the Plan. He then reviewed the performance of the Plan's investments. He stated the Plan's assets totaled \$4.9 billion. He indicated contributions and withdrawals for the quarter were roughly \$98 million and \$73 million, respectively. He indicated investment gains represented \$80 million. He noted the DCP Large Cap Stock Fund comprised one-third of Plan assets and the Stable Value Fund represented about 18% of Plan assets.

Mr. Muir reviewed expenses for the Plan which included the cost of administration, operations, consulting fees, as well as cost of recordkeeping and staff. He noted that on a weighted average, the overall all-in costs were about 24 basis points. Mr. Montagna noted that most plans do not have this kind of information, and stated that this was a key benchmark for which obtaining broad national consensus was important. He stated that the National Association of Government Defined Contribution Administrators (NAGCDA) was embarking on a benchmarking initiative to secure this and other key benchmarking data.

Mr. Muir reviewed the Plan's performance in the first quarter and noted that the FDIC Insured Savings Account was still yielding around 25 basis points on a blended basis. He stated the Stable Value Fund continued to perform in excess of the benchmark. He stated the DCP Bond Fund underperformed. He then discussed the risk-based profile funds and noted their

slight underperformance relative to the benchmark. He indicated that over the longer term there was meaningful, positive performance in the Aggressive and Ultra-Aggressive Portfolios, which delivered over 10% in returns. He reviewed the DCP Large Cap Stock Fund and noted that though there was muted performance in the first quarter, the one year period performance was up close to 13%. He stated the DCP Mid Cap Stock Fund's performance exceeded the benchmark and was up 4.1% and finished above median relative to its peer group. He concluded by reviewing the performance of the DCP Small Cap Fund and noted small cap stocks were up 4.3%, outperforming large cap stocks during the most recent period.

Quorum was established, and Mr. Mumma moved back to item 3 of the agenda.

5. BOARD REPORT 15-31: PLAN DOCUMENT REVISIONS

Esther Chang stated the Board had previously approved provisions for the Auto-Enrollment Program (AEP) back in January of 2015, and indicated staff was bringing forward recommendations for proposed revisions to the Plan Document. She identified sections of the Plan Document containing the proposed revisions. She stated language was included to indicate that participation in the Plan can now mean that a participant can submit an enrollment application or be enrolled via the AEP. She identified definitions and provisions of the AEP that had been added to the Plan Document. She stated a covered employee is a City employee that is: 1) part of a bargaining unit that has agreed to participate in the AEP, and 2) an active member of one of the City's three retirement systems. She stated that after an employee has been deemed an AEP covered employee, a file would be sent over to the Plan's record keeper to process the employee's enrollment in the Plan. She indicated that after enrollment, a participant would have 30 days to opt-out of the Plan before the first contribution is deferred from an employee's paycheck. She stated the covered employee would also receive a 30 day notice before an initial default deferral is taken. She indicated that within those 30 days, a participant could elect to cancel, increase or decrease their payroll deduction. She stated a participant also has an additional 90 days to withdraw their money after their first deferral is taken. She stated this 90 day period is called the permissible withdrawal window. She reviewed the rules of application and stated that this provision would only apply to covered employees where the unions have agreed to the AEP. She explained the default pre-tax deferral percentage would be 2%, which would automatically increase by 0.25% every year.

Ms. Chang stated that deferred funds would initially be invested in the FDIC account and indicated once the 90 day withdrawal window closes, funds would then be moved over to the Moderate Profile Portfolio. She stated this was in order to preserve the participant's capital during the permissible withdrawal window. She noted that this did not preclude participants from making any changes to their investment options at any time during the process. Mr. Mumma asked if there would be any further managing of a participant account when a person makes a change to their investment option. Ms. Chang explained that if a person made a change to their investment option, their funds would not be moved over to the Moderate Profile portfolio, but auto-escalation would still occur on a yearly basis. She noted however that if the participant elected to change their deferral percentage amount, their yearly auto-escalation of their deferral percentage would no longer be applied. Ms. Chang then explained

notice requirements of a 30 day notice sent to AEP participants before the first scheduled deferral, and an annual notice explaining the default deferral percentage escalation.

Mr. Schoonover asked how the AEP would be implemented in coordination with the bargaining units. Ms. Chang stated that the Los Angeles Police Protective League (LAPPL) had already been approached to be a pilot group. Mr. Montagna stated there would be a letter of agreement to implement the program and that once the pilot phase was completed and it was ensured that all the administrative, record keeping and payroll functions were working appropriately, a process could then be initiated to open up the AEP to all other interested labor organizations. Alejandrina Basquez noted the importance of the pilot program before branching out and offering the AEP to other bargaining units. She stated staff was open and receptive to other input and ideas.

Mr. Ciranna asked when the first deferral would be taken from a sworn employee attending an academy. Ms. Chang replied it would be taken after an employee graduates from an academy and joins the pension system. Mr. Montagna noted that when in the academy members contribute to the Pension Savings Plan and would not be eligible for enrollment in the Deferred Compensation Plan.

Mr. Mumma asked for clarification on the minimum deferral amount under the new AEP provisions. Ms. Chang noted the current model is that a participant is only allowed to request in whole dollar amounts with \$15.00 being the minimum contribution. She stated that under the AEP a participant would be able to request deferrals in dollar or percentage amounts and that with the percentage deferral option, it is possible that a participant could contribute less than the \$15.00 minimum that currently exists in the Plan Document. She stated the \$15.00 minimum language was being removed from the document to allow for more flexibility for what the Plan could roll-out to its participants.

Wendy Macy asked if staff had consulted with tax consultants on this program. Ms. Chang stated that the new language for the AEP was taken from IRS proposed model language and that staff worked with Empower Retirement staff, the City Attorney's office and the City Attorney's outside tax counsel to approve the language.

Ms. Chang concluded her review by stating language was also included in the Plan Document for implementation of an In-Plan Roth conversion option which would allow active participants to convert their pre-tax funds to after-tax money. Mr. Mumma asked when this would be effective and how participants would be notified of this component. Ms. Chang stated that once this Plan Document was approved, a request would be sent to Empower to turn on this feature. She also stated that a future newsletter article would be written and bulletins would be posted on the participant website. Ms. Basquez indicated this program could potentially have significant tax consequences for participants, and it would be important to ensure that any person electing to do this was aware of the impact of such an election and advised to seek tax counsel before making such a decision. Mr. Montagna noted that the decision to effect an in-plan Roth conversion is irrevocable. Mr. Schoonover asked how many retirees have elected to convert their pre-tax funds to Roth money. Ms. Chang indicated that there were less than ten since the conversion was made available to retirees a couple of years ago.

A motion was made by Mr. Schoonover, seconded by Ms. Macy, to adopt proposed revisions to the Deferred Compensation Plan Document that will incorporate provisions for the Auto-Enrollment Program and allow in-Plan Roth conversions for active participants; the motion was unanimously adopted.

6. BOARD REPORT 15-32: BOARD ELECTIONS – OFFICIAL RESULTS

Alexandra Castillo presented the results of the 2015 Board Elections. She stated the terms for the DWP Active Participant Representative and Retired Participant Representative were expiring on June 30, 2015. She indicated the Office of the City Clerk administered elections for these positions on May 22, 2015. She referenced the certified election results and stated Don Thomas was elected as the DWP Active Participant Representative and Cliff Cannon was re-elected as the Retired Participant Representative. She concluded her report by stating Mr. Cannon and Mr. Thomas would serve a term of office from July 1, 2015 through June 30, 2018.

A motion was made by Mr. Ciranna, seconded by Ms. Macy, to receive and file information regarding the 2015 Board Elections; the motion was unanimously adopted.

7. BOARD REPORT 15-33: 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 staff had finalized the language of the 2nd quarter newsletter and indicated the main article would address beneficiary designations and encourage participants to update their information. She stated the newsletter would also provide notice that beneficiary names were being included in participant statements in the next quarter. She updated the Board on the progress of the Targeted Enrollment Initiative and stated Empower Retirement staff was actively reaching out to contacts from the Department of Transportation and setting up meeting locations. She stated staff continued to work on plans for the initiative.

Ms. Chang reported on the fund change scheduled to occur on June 26, 2015, which included the creation of the DCP International Fund and an update to the underlying funds of the DCP Small Cap. She indicated that as part of the fund change, the Fidelity Diversified International Fund was closed to new assets on May 22nd to prevent participants from incurring any redemption fees. She stated notices were included in the 1st quarter newsletter and specific communications were sent to participants who were invested in either of the international funds.

Ms. Chang next reported on pending administrative projects and stated staff was working on finalizing the contracts for the Stable Value investment management services as well as the Plan's consulting services contracts. She indicated staff was in the process of preparing for the third-party administrator request for proposal (RFP) and stated a report would be brought before the Board at the next meeting regarding the overview of the plan for the RFP process.

Ms. Chang indicated staff was continuing to work on metrics projects for plan benchmarking as well as departmental metrics reporting. 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 and anticipated having a recommendation to the Board soon. She concluded her report by stating that Deferred Compensation staff member Claudia Guevara had promoted out of the Personnel Department and staff was working on backfilling the vacant position.

Mr. Ciranna asked if it was possible to provide NAGDCA with a policy document regarding metrics in order provide uniformity for the types of plan data to be collected. Mr. Montagna stated NAGDCA has issued a Request for Information for outside vendors that would be able to provide a way to capture data from member plans and allow member agencies to utilize the information.

Mr. Mumma asked if there was any pushback from plan sponsors or vendors in that some may not want others to know how much their services cost, etc. Mr. Montagna stated on the governmental side, Plan Sponsors generally were interested and wanted to know this information. He stated there were concerns from the vendor community about inaccurate comparisons of the data that were related to costs and pricing. He expressed the benchmarking initiative was a way to focus plans and providers to come up with a common way in determining comparative measurements.

Mr. Mumma commented it would be beneficial to know how the City's plan was doing compared to other comparable plans. Mr. Ciranna asked whether Mercer Consulting had consensus on how to report fees and/or how Plans should report their data. Mr. Muir stated that Mercer believes fees should generally be approximated the way it is represented in their report. He stated it is important to identify the overall cost per head.

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

8. REQUESTS FOR FUTURE AGENDA ITEMS

None.

9. FUTURE MEETING DATES – July 21, 2015

10. ADJOURNMENT

A motion was made by Mr. Ciranna, seconded by Mr. Cannon, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:17 a.m.*