

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JANUARY 20, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Clifford Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Michael Amerian, Third Provisional Chair
Ray Ciranna
Wendy G. Macy
Linda P. Le

Not Present:

Robert Schoonover

Staff:

Personnel:

Steven Montagna
Esther Chang
Paul Makowski

Alejandrina Basquez
Matthew Vong

City Attorney: Curt Kidder

1. CALL TO ORDER

Eugene Canzano started the meeting at 9:04 a.m.

2. PUBLIC COMMENTS

Initially, there was no public comment. However this item was reopened after discussion of Item 4. Mr. Canzano formally introduced and welcomed new Board member, Linda P. Le, new Retirement Plan Manager of the Water and Power Employees' Retirement Plan.

3. MINUTES

A motion was made by John Mumma, seconded by Wendy Macy, to approve the December 16, 2014 Regular Meeting minutes; the motion was unanimously adopted.

4. BOARD REPORT 15-01: UPDATE ON PROPOSED AUTO-ENROLLMENT PROGRAM (AEP)

Mr. Montagna reviewed the recommendations from the Plan Governance Committee pertaining to the core provisions of the AEP, which was first brought before the Board at the November 2014 meeting. Mr. Montagna indicated the Board had previously directed staff to provide an additional opportunity to labor organizations to submit input regarding the program. He stated that a letter was sent to all labor organizations inviting them to meet with DCP staff at a predetermined date and time to share any additional comments about the program. He indicated one labor organization was in attendance at the meeting, where most of the conversation pertained to details of the administrative or operational requirements. He indicated that no written comments were received, though he did receive a phone call from one another labor organization. He stated that no issues were brought forward that would be cause to reconsider or change the original recommendations as to the structure of the program.

Mr. Montagna recapped the recommended core provisions of the AEP. He stated the program would apply only to individuals who are newly contributing to one of the City's three primary retirement systems. He indicated it would only apply to employees belonging to bargaining units that have adopted this within their MOU. He stated that the automatically enrolled participants would be given a 30-day opt out period and notice prior to the first contribution being taken. He indicated that once a first contribution is taken, AEP participants would have up to 90 days to request a permissible withdrawal. He stated if they do so within the 90 day period, AEP participants would be able to receive all of the contributions plus interest. He indicated the recommended initial contribution would be 2% of pay, auto-escalated at 0.25% annually. He indicated this would only be a pre-tax deferral as the recordkeeper was not currently able to offer a Roth option under the AEP.

Mr. Canzano asked if this would be a pilot program. Mr. Montagna confirmed this, and indicated that when the recommended changes within the Plan Document are brought back to the Board, there will be more details as to how the Plan would proceed with the pilot phase.

Mr. Mumma asked whether Empower Retirement was considering any computer modifications to allow for after-tax or Roth deferrals. Lisa Tilley stated she would clarify and report back to the Board.

Michael Amerian asked how many bargaining units were present at the December 12, 2014 meeting. Mr. Montagna stated there was one individual in attendance, but that there was a phone call prior to the meeting, which mainly pertained to clarifying the program was optional to unions. Mr. Amerian asked how many bargaining units were invited to the meeting. Mr. Montagna stated all City and DWP labor organizations, according to a list obtained from the CAO's Office, were invited.

Tom Moutes asked whether there would be an adverse tax consequence if a participant were to request a permissible withdrawal after the opt-out period. Mr. Montagna stated the ultimate tax liability would not be any different. He stated there might be a difference with respect to individual withholding elections, but that would be adjusted after tax filings. He indicated Empower would tax the withdrawal at a default rate of 20% for federal taxes.

Cliff Cannon asked whether an individual could make a change to their contribution amount and withdraw a portion of their contribution during the permissible withdrawal window. Ms. Tilley stated that once a participant makes a change to their contribution amount, it generally takes them off of the “auto-enrollment track.” She stated that she would have to go back and verify if allowable, but generally once a participant begins to take control of their account, it is assumed that they have made a decision to participate in the plan. She stated that she would report back on whether a participant might be able to take a permissible withdrawal if a contribution change has been made.

Ms. Macy asked if staff had an updated implementation date given the delay in approving the core provisions. Mr. Montagna stated that the timing of meeting a third quarter target would largely be dictated by how long it took to implement the payroll functionality.

Ms. Le asked what fees might be incurred if a participant were to decide not to participate in the Plan during the permissible withdrawal window. Ms. Tilley indicated there is a participant record keeping fee applied every third month of each quarter; depending on when a person is requesting the permissible withdrawal, and that it was possible to incur that fee.

Ray Ciranna asked if staff had already initiated conversations with ITA and the Controller’s Office about making changes. Mr. Montagna stated that was done as part of the research before the item was brought to the Governance Committee. Mr. Ciranna additionally suggested documenting the December 12th meeting and other contacts with the labor organizations and sending communication over to the CAO’s Office. Mr. Montagna stated staff would do so.

A motion was made by Mr. Amerian, seconded by Mr. Mumma, to approve the recommendation from the Plan Governance and Administrative Issues Committee to adopt core provisions of an Auto-Enrollment Program for the City’s Deferred Compensation Plan; the motion was unanimously adopted.

A second motion was made by Mr. Moutes, seconded by Mr. Cannon, to direct staff to work with Board counsel in drafting the necessary Plan Document changes to implement the Auto-Enrollment Program for subsequent Board review and adoption; the motion was unanimously adopted.

Mr. Canzano reopened Item 2 to introduce the Board’s new member, Ms. Le.

5. BOARD REPORT 15-02: DCP MID-CAP, SMALL-CAP AND INTERNATIONAL FUND CHANGE IMPLEMENTATION PLAN

Esther Chang stated the Board had previously approved implementation of a simplified and streamlined version of the DCP investment menu, featuring custom, Plan-branded funds. She indicated this was based on best practices in the industry, discussions with the Plan's investment consultant, and participant survey information. She stated the first phase of the investment menu was introduced on April 20, 2012, with the creation of the DCP Bond, Large-Cap and Mid-Cap Funds. She stated the Plan was ready to implement the final phase of the investment menu enhancements, which included the creation of the DCP Small-Cap and International Funds. She indicated that in 2012, participants were informed that the latter half of this implementation would be completed after the conclusion of active fund manager searches. She stated these searches were recently concluded at the December 2014 meeting when the active managers for the international funds were chosen.

Ms. Chang indicated that the final phase of the implementation would be introduced in two stages. She indicated the first part would occur on March 20, 2015: the DCP Mid-Cap Fund would see changes to the underlying investment fund manager allocations, and the DCP Small-Cap Fund would be created. She indicated the allocation of the DCP Mid-Cap Fund would change from 100% to 50% funded by the Vanguard Mid-Cap Fund, with the other 50% to be actively managed. Ms. Chang indicated the DCP Small-Cap Fund would include a 34% passive component, managed by the SSgA Russell Small-Cap Fund, with the other two-thirds attributed equally to active value and growth managers. Ms. Chang stated that the changes to these funds will be introduced to participants on March 20th and would be communicated via the participant newsletter that will be sent out in January, targeted communications to those affected by the change, and website bulletins. She stated participants would no longer be able to invest in the SSgA Russell Small-Cap Fund as a standalone option, but similar small cap mutual funds were available through the Schwab brokerage window.

Ms. Chang stated the latter half of the implementation would occur in July 2015 as the implementation date was delayed due to complications related to redemption fees maintained by the current international fund options. She indicated that one of the current international fund options, managed by Fidelity, maintained an early redemption charge of 1% for anyone that is redeeming shares held less than 30 days. She stated the Plan would therefore be prohibiting new money from flowing into the Fidelity fund approximately 30 days prior to the fund implementation date to prevent participants from incurring any fees. She indicated any Fidelity elective deferrals would be mapped or transferred to the other international option managed by Deutsche during the 30 day period. She stated that when the new DCP International Fund is introduced, all assets allocated to Fidelity and Deutsche would be mapped to the new fund. Ms. Chang stated the Plan will be communicating this to participants via newsletter, targeted communications, and website bulletins as well.

A motion was made by Mr. Moutes, seconded by Mr. Mumma, to receive and file the update regarding implementation plans for recently adopted changes to underlying providers for the DCP Mid-Cap, Small-Cap and International Funds; the motion was unanimously adopted.

6. BOARD REPORT 15-03: 2015 DEFERRED COMPENSATION PLAN ANNUAL BUDGET

Mr. Montagna presented the 2015 Deferred Compensation Plan's Annual Budget, which provides a projection of the best estimates of revenues and expenses expected for this year. Mr. Montagna stated there was a policy previously approved by the Board that unused training funds from one year would rollover to the following year. He indicated that in practice, the Plan was expending closer to half of the budgeted amount each year. He stated staff would like to come back to the Board with a recommendation to modify the policy so that unused training amounts would not carry forward. He indicated staff had determined a carryover recommendation was not necessary as there was nothing that would preclude the Board from directing staff to recommend additional funds for additional training. He also noted that the operating annual deficit is approximately the same amount as the previous year.

Mr. Ciranna asked when staff would come back with the discussion on CAP rates. Mr. Montagna stated staff may be able to come back at the next meeting, but that part of what staff needed to accomplish was to fully comprehend how the calculations behind CAP rates work. Mr. Ciranna stated he would like to see a staffing plan or list of positions in the budget, and added that to get a sense of overall trends, he would like to see a comparison of prior year actual expenses with the estimated expenses for the current year. Mr. Montagna stated that staff would work on including that information.

Mr. Canzano asked whether the updates to the training policy might include any language that could affect the current policy, where a Board member was approved for two budgeted training events. Mr. Montagna stated each individual staff or Board member was allotted a maximum of two training events per year. He stated that if there was interest for additional events, it would have to be brought before the Board for approval. Mr. Canzano stated that from a Board perspective, he is interested in discussing scenarios, when there is budget available, which would not require additional approval when an appropriate situation arises. Mr. Canzano stated that he does not want to lose flexibility because there may be situations where newly elected Board members would need more than two training events per year. Mr. Montagna recalled that there was action taken by the Board in previous years that allowed approval for training for cases where it would not be cost-effective to bring an issue before the Board, to be approved through the Chairperson and the Personnel Department General Manager.

A motion was made by Mr. Amerian, seconded by Mr. Mumma, to adopt the proposed Deferred Compensation Plan Budget for Plan Year 2015; the motion was unanimously adopted.

7. BOARD REPORT 15-04: QUARTERLY BUDGET REVIEW AND REIMBURSEMENTS

Paul Makowski reported the recommended 2014 3rd Quarter reimbursements due for staff hours and the City Attorney. Mr. Canzano mentioned that there was an assumption made of 2.75% for the Stable Value Fund and it happened to be 1.75% currently and asked whether the long-term assumption might need to be revised. Mr. Montagna stated staff would be reviewing the rate as interest rates continued to be depressed.

A motion was made by Mr. Mumma, seconded by Mr. Cannon, to receive and file the status report on Deferred Compensation Plan budget accounts for quarter end 9/30/14; the motion was unanimously adopted.

A second motion was made by Mr. Cannon, seconded by Mr. Mumma, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$146,044.25 and City Attorney for \$38,683.95; the motion was unanimously adopted.

8. BOARD REPORT 15-05: 2014 MEETINGS ATTENDANCE REVIEW

Ms. Chang presented the report on the 2014 Meeting Attendance by Board members and briefly informed the board of the total meetings held during the 2014 calendar year.

A motion was made by Mr. Mumma, seconded by Mr. Amerian, to receive and file the 2014 Board and Committee meeting attendance report; the motion was unanimously adopted.

9. BOARD REPORT 15-06: 2015 BOARD ELECTIONS

Ms. Chang briefed the Board on the upcoming election for the Active DWP Participant and Retired Participant Representative Board member seats, which are for terms beginning July 1, 2015 and ending June 30, 2018. Ms. Chang reported key dates for the election, including nominating petition availability at the end of March, ballot mail-out in late April 2015, and the Election Day on May 22nd.

Mr. Canzano asked whether this election might cost less than the previous election. Ms. Chang anticipated costs would be lower because the previous election for the active LACERS and LAFPP participant demographic had approximately 10,000 more eligible voters.

A motion was made by Mr. Cannon, seconded by Mr. Moutes, to receive and file the report on upcoming elections for the Board of Deferred Compensation Administration; the motion was unanimously adopted.

10. BOARD REPORT 15-07: NSFRW RETIREE SURVEY REVIEW

Mr. Montagna presented the results for the NSFRW Retiree Survey. He noted that some of the questions posed in the Plan survey were also posed in a national survey conducted in 2014 by T. Rowe Price. He stated that 60% of retirees expect to spend down most of the amount in their account, but roughly 40% were planning to pass it on to heirs; he indicated those results closely matched the T. Rowe survey. Noting some differences, Mr. Montagna reported only 12% of our population indicated that they would have difficulty living off the income they are receiving when the national average is closer to one third (1/3). He stated that one item that the Plan may need to pay attention to was that 20% of retirees responded that they needed to update their beneficiary designation. He stated that when that number was extrapolated to the population as a whole, it would potentially be 1,500 – 1,600 members that would need to update their designations. Mr. Montagna stated staff would come back to the Board with recommendations on efforts to remind retirees and participants of the importance of updating beneficiary designations.

In regards to the beneficiary designations, Mr. Cannon asked if respondents were referring solely to their pensions or if they were including deferred compensation. Mr. Montagna stated the intent of the question was related to the Plan's beneficiary designation. He stated however that it may have been interpreted to include both.

Mr. Ciranna asked how many e-mail addresses the Plan currently retained for retirees. Ms. Chang indicated approximately half of the retirees had an e-mail address in the system. Mr. Ciranna stated staff may want to consider how to reach out to participants via different communications mediums to inform them of the importance of updating their beneficiary information.

Mr. Amerian stated that since the survey was conducted online and the Plan only had the e-mail addresses of half the retiree participants, whether there might be a certain bias to the results as it would represent the more savvy retiree participants. Ms. Chang stated a card was mailed to the rest of the population without e-mail addresses informing them the survey was available online, with the option of requesting a hard copy be sent to them. She stated approximately 25 retirees did request hard copies. Mr. Amerian commented that people still within the City's employ may have a higher comfort level with technology and using the internet than someone that may be retired and separated from City service for some time. He expressed his concern there may be a more profound problem with the beneficiary designations than the numbers would suggest. Mr. Montagna stated that staff would come back to the Board with some

options for improving transparency of what the designations are currently and to remind and encourage participants to make any updates they deem necessary.

Mr. Ciranna asked if staff has considered an expanded communication plan to obtain participant opinion regarding Plan issues. Mr. Montagna stated that the question was related to an upcoming report and the discussion about how the Plan is trying to shift towards a new way of looking at data, which would be framed by stressing the core mission of the program and the definition of its success. He stated that as an example, by looking the beneficiary issue, if this would be considered a key measurement of how well the Plan is doing to raise awareness and get people to take action, then the Plan would want to collect that type of data and participant opinion to determine if those are desired results. He indicated the Plan is at the beginning of this process of changing the focus to be able to benchmark success. Alex Basquez commented that it may be useful to share the information and work with the pensions systems as common issues exist, and beneficiary designations are an example of that. She stated this survey would be helpful to start that dialogue.

Ms. Macy stated what struck her was that the survey results showed that the gender of the respondents were 71% male. She stated while that may be aligned with the demographics, she has seen studies about how women in the workplace traditionally do not invest quite as much as they need to in these programs and indicated there could be a more focused outreach towards women. She additionally commented that since many survey respondents indicated they were planning to leave their proceeds to their heirs, perhaps there could be a marketing effort to view the Plan also as a wealth management strategy.

Mr. Canzano asked if there were any plans to have the survey posted on the participant website as he believed it to be a valuable tool. Mr. Montagna stated the plan could do so.

Ms. Le asked whether the trend the same throughout the three pension plans. Mr. Montagna stated that the results looked at the overall city retiree population and were not broken down by pension plan. Ms. Le stated her interest in seeing the results broken down to DWP data. Mr. Montagna indicated staff would look into this.

A motion was made by Mr. Cannon, seconded by Ms. Macy, to receive and file the report regarding retiree survey results for the 2014 National Save for Retirement Week engagement/awareness campaign; the motion was unanimously adopted.

11. BOARD REPORT 15-08: PROPOSED REVISIONS TO STAFF REPORTS
FROM PLAN ADMINISTRATOR/STAFF

Mr. Montagna presented the proposed revisions to the staff report, which would move data from the monthly staff reports and shift them to quarterly reporting. He indicated that the presentation of those numbers would be reframed within a new context which

relates it back to the core mission of the program and lays out how the data ties to the Plan's measurement of success. Mr. Montagna stated staff would also consider information from other plans so that the Plan could not only benchmark internally but also relative to other plans. He stated that in the first quarterly report covering January to March, staff would come back with a draft that would begin to lay out this information. He stated that the regular quarterly report would still be presented so that nothing was taken away until it is certain the Board was comfortable with the new approach. Mr. Montagna stated the new staff report would also be reframed to focus on giving periodic updates on current and upcoming projects.

A motion was made by Mr. Moutes, seconded by Mr. Amerian, to approve staff's proposed changes to monthly and quarterly reporting of Plan statistics, projects, and other information related to the ongoing administration of the Plan and evaluation of its success in meeting its core mission; the motion was unanimously adopted.

12. BOARD REPORT 15-09: STAFF REPORT

Ms. Chang reviewed the staff report and indicated it would be the last one presented in that format. Ms. Chang stated the November 2014 statistics for counter activity, accrued leave, and hardship activity. Mr. Ciranna noted increased counter activity and asked whether the Plan might need to do more electronic outreach since we are headed into an era of more self-service. Mr. Montagna stated that as there are more choices, features and services offered, they become factors that drive people to come in and speak with representatives, which is a valuable form of engagement, but that both types of communication were critical.

Lisa Braun-Ward from Empower commented on the types of participant questions coming in, and stated that one of the focuses now was trying to close the retirement income gap, and identifying goals to accomplish that. She stated this idea was relatively new, and participants were starting to identify with it and need additional guidance. Mr. Montagna followed up by stating that this was one of the results after the introduction of the retirement income calculator, which was designed to increase engagement. He stated that the higher counter activity was a positive indication that more people are connecting, engaging, and thinking about these topics. Ms. Braun-Ward stated that very few people come into City Hall to actually enroll, but to receive an account review. She indicated most enrollments are done out in the field.

Ms. Chang continued to report on loans, deferral activity, Roth activity, and project updates. She noted an overview of the current vacancies on the Plan Governance & Administrative Committee and Investments Committees. She asked that Board members contact her should they wish to make changes to or express interests for their committee preferences.

A motion was made by Mr. Mumma, seconded by Mr. Amerian, to receive and file the staff report; the motion was unanimously adopted.

13. REQUESTS FOR FUTURE AGENDA ITEMS

None.

14. FUTURE MEETING DATES

The Investments Committee will meet on January 29, 2015, and the next Regular Meeting of the Board is set for February 17, 2015.

15. CLOSED SESSION

The closed session was cancelled. Mr. Kidder stated he currently had no new updates for the Board; he stated a scheduled conference call with the attorneys for the other two parties was postponed until the afternoon of January 20, 2015. He stated the phone call was intended to plot the course on how the case would be resolved. He indicated he would provide an update to the Board at the next meeting.

16. ADJOURNMENT

A motion was made by Mr. Amerian, seconded by Mr. Ciranna, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:23 a.m.*