CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
SPECIAL MEETING OF MAY 6, 2009 – 2:00 P.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:
Present:
Eugene Canzano, Chairperson
Richard Kraus, First Provisional Chair
Shelley Smith, Second Provisional Chair
Margaret Whelan, Third Provisional Chair
Sally Choi

Staff:

Personnel:	Alex Basquez Steven Montagna Natasha Zuvich Ashley Stracke
City Attorney:	Steven Hong

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 2:10 p.m.

2. PUBLIC COMMENTS

None.

3. BOARD REPORT 09-27: HARTFORD GENERAL ACCOUNT AND STABLE VALUE FUND CONSOLIDATION

Mr. Montagna stated that at the May 19, 2009 Board meeting, staff had reported that Hartford Life Insurance (Hartford) was assisting the Plan in meeting the June 1, 2009 deadline to transfer the funds of the Hartford General Account to Galliard Capital Management (Galliard). Mr. Montagna explained that after the meeting, Hartford contacted staff to inform the Plan that they would not be moving forward as previously indicated and would instead revert to the three options described in the terms of the City's contract with Hartford. He indicated that staff had reviewed the three options and would be recommending that the Board approve the option of a Lump-Sum Payment/Liquidation of assets from the Hartford General Account.

Mr. Montagna explained that of the three options available under the contract, only two were viable. He stated that the most favorable option would be to provide notification to Hartford requesting the balance of the funds to be cashed out immediately. He explained that Hartford would be obligated through the terms of the contract to provide the funds within 90 days. He further explained that the funds could be subject to a market value adjustment if one needed to be applied. Mr. Montagna indicated that the second viable option available to the Plan would be for Hartford to cash out the funds over the course of twelve months at a rate of 3%, and this was not optimal because of the impact it would have on the combined rate of return for the two asset pools. He indicated that staff and Phil Suess from Mercer Investment Consulting were thus focusing on the logistics of the first option.

Mr. Montagna began discussing the Hartford Full Balance Liquidation Illustration provided at the meeting. He stated that the Current Fund Balance of the Hartford General Account was approximately $450 million as of May 1, 2009. He stated that the market value of the funds was $468 million. He indicated that premium of the Market Value over the Fund Balance was 3.91%, which would provide a cushion for the Plan. He indicated that the last figure on the illustration gave data on what kind of change in interest rates would be needed in order for a market value investment to apply. He stated that it would take a change in interest rates of 200 basis points to create a market value adjustment of .992% of the value of the General Account. He further indicated that if this amount was amortized over a three year period, it would only represent .025 basis points per year. Mr. Montagna stated that a change in the interest rate of that magnitude over the next ninety days was extremely unlikely given current structural economic weakness.

Ms. Smith stated that she wanted to confirm that Hartford had walked away from repeated discussions where they were going to assist the Plan cooperatively. Mr. Montagna indicated that in early 2009, Hartford had verbally communicated to staff on a number of occasions that the firm had been setting aside cash in order to transfer the funds prior to June 1, 2009. He stated that Hartford had reinvested the cash without informing the Plan of this action. Ms. Smith stated that she believed that the sooner the Plan could disengage from its relationship with Hartford, the better it would be for the Plan and its participants. She further indicated that she supported staff's recommendation.

Mr. Canzano asked the consultant to clarify what interest rates were being referred to. Mr. Suess stated that under the provisions of the contract the formula was for the US Treasury strip rate plus 75 basis points. He explained that formula was used for the current market value figure of $468 million.

Ms. Smith stated that she felt reassured by the analysis provided by Mercer and staff. **A motion was then made by Shelley Smith, seconded by Sally Choi, to approve the option of a Lump-Sum Payment/Liquidation of assets from the Hartford General Account, and instruct staff to provide immediate notification of the same to Hartford Life Insurance.**

Mr. Canzano asked if there were any questions that still needed to be addressed before the motion was put to a vote. Mr. Kraus asked if there was any reason why the figures provided on the “Hartford Full Balance Liquidation Illustration” should be questioned given Hartford’s prior changes to some of their verbal commitments. Mr. Suess stated the formula for the discount rate was defined in the contract as the treasury rate plus 75 basis points.

Mr. Kraus asked if there would be a difference between the date the calculations were conducted and the date the money was transferred. Mr. Suess stated that Hartford was contractually obligated to transfer the funds within ninety days of notification from the Plan, however Hartford had discretion as to when the funds were transferred within that time period. He explained that Hartford indicated that the funds would not be transferred prior to July 1, 2009 and that the firm would give the Plan three to seven days notice prior to making the payment. Mr. Suess stated that paying out the money was not adverse to Hartford. He explained that since the money was capitally constrained, paying out the money would free capital and the firm would gain $18 million from a positive market value adjustment.

Mr. Montagna stated that from a participant’s perspective, the consolidation of the Hartford General Account and the Galliard Stable Value Fund would take place on July 1, 2009. He explained that Galliard was willing to recordkeep the pools of money through the transition date even though the Plan would not receive payment until after July 1, 2009.

The motion previously set forth was unanimously adopted.

4. REQUESTS FOR FUTURE AGENDA ITEMS

Ms. Choi asked if the Plan had experienced problems with third party marketers. Ms. Smith said that she knew that in the past, lobbyists had represented vendors and potential vendors, however she was unaware of the Plan having problems with third party marketers. Ms. Choi asked if the policy regarding third party marketers could be put on an agenda for an upcoming Board meeting.

5. NEXT MEETING DATE – MAY 19, 2009

6. ADJOURNMENT

A motion was made by Shelley Smith, seconded by Sally Choi, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 2:28 p.m.

Minutes prepared by staff member Ashley Stracke.