

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING MAY 15, 2012 – 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
Sangeeta Bhatia, Third Provisional Chair
William Raggio
Robert Schoonover
Margaret Whelan

Not Present:

Michael Amerian

Staff:

Personnel: Alejandrina Basquez
 Steven Montagna
 Esther Chang

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:16 a.m.

2. PUBLIC COMMENTS

There was no public comment.

Mr. Canzano introduced Mr. William Raggio, who is the new Interim General Manager of the Fire and Police Pensions Department and newest member of the Board of Deferred Compensation Administration.

3. MINUTES

A motion was made by Mr. Mumma, seconded by Mr. Schoonover, to approve the April 17, 2012 minutes; the motion was unanimously adopted.

4. GREAT-WEST QUARTERLY PLAN REVIEW

Ms. Usha Archer, Ms. Lisa Tilley, and Mr. Gary Robison were present to provide an overview of the Great-West quarterly report for the first quarter of 2012.

Ms. Archer stated Plan assets had grown largely due to change in market value; she indicated assets were currently at a little more than \$3.4 billion, up almost 8% quarter-over-quarter. She indicated Roth balances had doubled. She stated the Stable Value Fund still remained the Plan's most popular investment option, with Vanguard's large-cap fund following behind; she clarified that the report did not reflect the funds as the transition occurred in April. She stated that while contribution levels remained fairly flat, the Plan did enroll 211 new participants during the quarter. She stated average Roth deferrals increased, from \$240 to \$983 biweekly. She indicated it seemed many participants closer to retirement were taking maximum advantage of the Roth option, rather than younger participants. She stated she would verify the increase in the Roth average deferral amount and review possible causes. She indicated that assets in the self-directed brokerage option was previously around \$3 million but increased to \$8 million, which she speculated to be a consequence of the recent fund change. Mr. Robison commented it may also be attributed to the strong market performance. Ms. Archer stated she anticipated changes in asset allocations for the next quarter's report due to the fund changes. She also discussed participant average balances, and stated 72% of participant balances were at \$100,000 or less, while about 1.5% of participants had average balances of over \$500,000.

Ms. Tilley provided an overview on Plan distributions, stating that the largest distributions were due to separation from service and retirement, both in dollars and participant counts. She also noted there was an increase in distributions related to death claims. Ms. Tilley stated that rollovers out of the Plan had declined in comparison to money coming in since calendar year 2010; she stated the Plan was currently seeing slightly more money rolled in than going out of the Plan. She stated the top three firms to which funds were being rolled out were Schwab, Prudential, and TD Ameritrade. Ms. Whelan asked if there was any detail on what populations were rolling out funds, whether by department or job type. Mr. Montagna indicated there would have to be a run against City payroll to somehow identify former job information. Ms. Archer indicated she would work with staff to identify this data.

Ms. Tilley indicated approximately \$140 million was outstanding for loan amounts, with about \$4.8 million in defaulted loans. She stated that for 2012, the average number of loans had slightly decreased, but the average balance of loans had increased. Ms. Tilley indicated online statement enrollment had stayed fairly consistent. Mr. Montagna stated the percentage of plan participants who had a log-in ID or were unique users to the websites was still very small; he indicated once these numbers are increased that online statements would be the logical next step. Mr. Cannon asked whether there were any statistics on online usage comparisons between active and retired participants. Ms. Archer indicated Great-West does not receive retirement dates from the City payroll system; as such, it would be difficult to glean this data other than by reviewing each

participant's status. Mr. Mumma asked how the online statement enrollment participation compared to other plans. Ms. Tilley responded that it was a bit lower, especially in comparison to the corporate market; she indicated the government market tends to be lower overall. She indicated corporate markets were able to focus more on technological and electronic capabilities.

Mr. Robison indicated the number and length of participant phone calls had lengthened due mostly to the recent fund changes. He stated the local representatives had been conducting many group meetings and been looking for additional locations to provide service to employees. He indicated the local representatives would be looking to increase service to the Harbor area and also to areas in the Valley in order to provide assistance to employees who did not have immediate access to the local service center at City Hall.

5. BOARD REPORT 12-28: PLAN DOCUMENT CHANGES AFFECTING PURCHASE OF SERVICE CREDIT, ROTH CONVERSIONS, & RETIREE LOANS

Mr. Montagna stated that the Plan had been notified by the Department of Fire and Police Pensions that certain members may have overpaid to purchase their service credit. He indicated while Pensions does assess the service credit amount upon initial request, the service credit amount is reassessed and any overages are refunded. He stated if it was a large amount to be refunded, some participants have indicated a desire to roll back the funds back into the Plan if the Plan was a source of the original purchase. He stated staff had discussed the matter with the Plan's consultant, Mercer, which had developed proposed language to amend the Plan Document. Mr. Mumma requested the deletion of the statement in the third line of the proposed language to amend Section V, paragraph (j) of the Plan Document, which reads: "...due to changes in expected retirement date, eligible survivors, or other factors..." He stated the language does not seem to be necessary and could be misconstrued in the future as implying limitations to when a refund could be rolled back. Mr. Montagna indicated he did not see an issue with the deletion, but would verify with the consultant and Board counsel, as to form. Ms. Bhatia asked if there was any expiration date for the refund to be rolled back to the Plan. Mr. Montagna indicated the refund could be rolled back at the time of retirement, when Pensions reassesses the service credit and determines any overage.

Mr. Montagna indicated that when the Plan introduced the Roth savings option, a feature to convert existing pre-tax funds to Roth money had not been initially implemented due to complexities involved with the administrative process. He indicated that staff and Great-West had resolved the issues and recommended moving forward with implementation. He stated that at the time of distribution eligibility, a participant would be able to take their pre-tax balance, pay the required taxes, and convert the funds to Roth. He stated that participants who do not expect to take distribution soon after they retire from City service may want to take advantage of this option, as would

employees who were far from normal retirement age. Mr. Canzano asked if there were any IRS guidelines that would allow current, active participants to convert pre-tax funds to Roth. Mr. Devon Muir from Mercer stated that there were in-plan rollovers allowed for 401(k) plans but not for 457 plans. Mr. Montagna indicated that NAGDCA has expressed interest in resolving areas where there was inconsistency between the 401(k) and 457 rules. Mr. Canzano indicated this was one of the most asked questions he has received and indicated he would like to see this addressed should conversions be allowed for active participants. Mr. Mumma indicated he had received those questions as well.

Mr. Mumma asked for clarification regarding the minimum allowed loan amount. Mr. Montagna indicated that the minimum loan was \$1,000, but a participant would need at least a \$2,000 balance as loan amounts could only be 50% of the account balance. He indicated that the table on the bottom of page 3 of the Board report had listed the minimum loan amount incorrectly. He stated he believed that retiree loans would be well utilized, as it could appeal to those who were interested in preserving their balances for longer term use or to pass onto an heir. He stated staff had been working with Great-West to determine how loan payments could be collected in the Plan. He stated that retirees would need to make monthly payments, versus biweekly payroll deductions for active participants. He stated that loans will be administered and maintained similarly otherwise. Mr. Cannon asked whether there were any age restrictions, and if there were any complications for when a retiree requests a loan but is also subject to the minimum distribution requirement. Mr. Montagna stated the issue of whether the minimum distribution requirement formula might be affected by an outstanding loan balance had not come up in discussion yet. Ms. Tilley added that no other plans have yet implemented retiree loans, but that she would discuss the matter internally at Great-West.

Ms. Whelan asked whether it might be possible to take loan deductions directly from retiree checks from the retirement system. Mr. Montagna indicated an interface would have to be created as there was currently no interaction between the systems for Deferred Compensation and the retirement plans. Mr. Raggio indicated Pensions was working on a new administration system; depending on costs some sort of interface could be implemented. Ms. Bhatia stated DWP had just implemented a new system; she indicated she would also need to see the costs of implementing a retiree deduction. Mr. Montagna indicated that the City was the first Great-West plan to implement these retiree loans; he recommended the initial rollout of the option rely on the proposed repayment methods, but stated there will be room for refinement.

A motion was made by Ms. Bhatia, seconded by Mr. Cannon, to approve proposed changes to the City's Plan Document regarding refunds of purchase of service credit, with requested edits; Roth account conversions; and implementation of retiree loans. The motion was unanimously adopted.

6. BOARD REPORT 12-29: NAGDCA CONFERENCE & BUCK CONSULTANTS SEMINAR

Mr. Montagna indicated staff had prepared information regarding the 2012 NAGDCA conference that was to be held in San Diego. He indicated the recommended mode of travel would be by train. He stated while authorization from the Mayor's Office was necessary, staff had already made reservations at the hotel. He indicated conference registration would be taken care of once the travel authority was approved.

Mr. Canzano asked for more information about the pre-conference classes and the possibility of attending some or all of them, which would include additional hotel night stays. Mr. Montagna indicated that previously, the pre-conference sessions were priced as a single package, however this year NAGDCA was pricing them per session. He indicated these costs were not recommended in addition to the costs for conference registrations, hotel reservations, and other travel arrangements.

Mr. Moutes stated that LACERS has a strict "no-gift" policy. He asked whether there would be consideration for funds to cover any of the sponsored events and meals. He stated he could ask the LACERS board for funds if not. Mr. Montagna indicated that prior instruction from the City Attorney was that if there were items consumed or materials taken, employees should assess and determine whether the item is reportable. Mr. Kidder indicated gifts over \$50 would have to be reported, and no gifts over \$420 could be received. Mr. Moutes indicated that when attending conferences on LACERS behalf, he requested costs for sponsored events from the conference, which LACERS would then pay for due to its no-gift policy. He asked that staff obtain this cost for the NAGDCA conference so appropriate action could be taken.

Mr. Montagna stated that Buck Consultants was holding a free training session and asked interested Board members to contact him. He stated he did not anticipate any Plan expense. Mr. Kidder asked for clarification if the training was open to not just the City's Plan but plans statewide. Mr. Montagna confirmed. Mr. Canzano asked whether the free session would be considered a gift; Mr. Kidder indicated as it is open to other plans, it would not be considered a gift.

A motion was made by Mr. Mumma, seconded by Mr. Schoonover, to a) approve the necessary funding for available Board members and professional staff to attend the 2012 NAGDCA conference in San Diego, California, and b) receive and file information regarding an upcoming seminar offered by Buck Consultants; the motion was unanimously adopted.

7. BOARD REPORT 12-30: PROPOSED CONTRACT WITH BUCK CONSULTANTS FOR COMMUNICATIONS CONSULTING

Mr. Montagna indicated staff was seeking approval of the proposed contract for Buck Consultants. He stated that the process had been moving so expeditiously that staff

was anticipating an execution date prior to July 1, 2012. He stated the contract was currently with Counsel who was reviewing the document for approval as to form.

A motion was made by Mr. Schoonover, seconded by Ms. Bhatia, to approve the proposed contract between the City of Los Angeles Deferred Compensation Plan and Buck Consultants for communications consulting services, and to authorize the Board Chairperson to execute the contract, pending final approval as to form by the City Attorney; the motion was unanimously adopted.

8. BOARD REPORT 12-31: STAFF REPORT

Ms. Chang indicated information had been compiled for the April staff report. She stated: 233 participants visited the public counter; 14 participants elected to defer their accrued leave for an amount a little over \$350,000; 51 hardship cases were submitted and 43 cases were approved mainly for reasons of preventing eviction or foreclosure, for a total of approximately \$344,559 disbursed. Mr. Raggio asked whether the denial listed was included in Great-West's quarterly report. Ms. Tilley indicated the Great-West report was for the first quarter so it would likely be a different request. Mr. Raggio asked whether denials are appealed to this Board. Ms. Chang confirmed and stated that the participant receives a denial letter from Great-West and is informed they can appeal to the Board. Ms. Tilley added that the letter would also explain why the hardship was denied.

Ms. Chang stated 501 participants elected to obtain a new loan, for about \$6.5 million dollars disbursed from the Plan; a little over \$13.4 million was deferred into the Plan, which was a decrease of 4.5% year-over-year; and 78 new Roth accounts were established in April, for a total of 913 current Roth accounts established since August 2011, which constitutes a 3.19% participation rate of contributing participants. Ms. Chang indicated that staff had also added a listing of committee memberships for the Board's reference. She indicated she would be following up with Board members in scheduling the Plan Governance Committee meeting.

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

9. REQUESTS FOR FUTURE AGENDA ITEMS

Ms. Whelan asked that staff review the options for implementing a payroll deduction for repayment of retiree loans and how that might be coordinated with the three retirement systems.

10. NEXT MEETING DATE – JUNE 19, 2012

11. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Raggio, to adjourn the meeting; the motion was unanimously adopted. The Board adjourned at 10:45 a.m.

Minutes prepared by staff member Esther Chang.