

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JANUARY 17, 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
Sangeeta Bhatia, Third Provisional Chair
Robert Schoonover
Michael A. Perez
Margaret Whelan

Not Present:

Tom Moutes, Second Provisional Chair
Michael Amerian

Staff:

Personnel:	Alejandrina Basquez	Steven Montagna
	Natasha Gameraoz	Esther Chang

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:04 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Mr. Mumma, seconded by Ms. Whelan, to approve the December 20, 2011 minutes; the motion was unanimously adopted.

4. BOARD REPORT 12-01: CHAIRPERSON, VICE-CHAIRPERSON,
PROVISIONAL CHAIRPERSON ELECTIONS

Ms. Gameraoz stated that per the City Administrative Code, the Board is to vote for its Chairperson, Vice-Chairperson, and Provisional Chairs at the January meeting of every even-numbered year. Ms. Whelan indicated that the current Chair, Vice-Chair, and Provisional Chairs were just elected in July 2011; as such, and as she expressed

confidence in their continued abilities, she supported re-electing the current slate of officers.

A motion was made by Ms. Whelan, seconded by Mr. Perez, to elect Mr. Canzano as Chair, Mr. Mumma as Vice-Chair, Mr. Cannon as First Provisional Chair, Mr. Moutes as Second Provision Chair, and Ms. Bhatia as Third Provisional Chair; the motion was unanimously adopted.

5. BOARD REPORT 12-02: BOARD & COMMITTEE MEETINGS
ATTENDANCE REVIEW

Ms. Gameroz stated that staff had prepared a report noting attendance for all Board members at Board and committee meetings, which the Board had previously requested on an annual basis. Mr. Canzano thanked the Board members for their participation.

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

6. BOARD REPORT 12-03: OPTIONS FOR KEEPING AVAILABLE ELIMINATED
FUNDS, INVESTMENT MENU UPDATE

Mr. Montagna stated that staff had prepared a report regarding options for keeping available funds to be eliminated in April 20, 2012 as part of the next phase of the investment menu change; this was requested by the Board at the last meeting. He stated there were three options: A) push back the implementation date and freeze the eliminated funds from receiving new contributions; B) push back the implementation date and keep the eliminated funds available for contributions until that time; or C) maintain the existing transition schedule and move forward with changes presently scheduled for April 20, 2012.

Mr. Montagna asked the Board to note that staff and Mercer did not recommend Option A, as it was believed maintaining eliminated funds but not allowing contributions created contradictions and confusion. He indicated that if there was interest in pushing back the date, Option B made more sense. He suggested that with this option, there may be communication benefits to have all changes occur at the same time as the next phase of implementation to take effect in 2013. He noted, however, that changing the date at this point might be confusing as the date had once already been pushed back to April 20, 2012, which participants had been notified of.

Mr. Montagna indicated an update to the availability of the Hartford Capital Appreciation Fund through the self-directed brokerage option (SDBO) offered by Schwab, stating that a similar share class might be available through the SDBO. He indicated Hartford was currently in negotiations with Schwab.

Mr. Mumma asked staff to confirm why the investment menu change was being broken up into two phases. Mr. Montagna indicated there was intent to make the transition

gradual so that participants could better understand the changes. Mr. Mumma asked if the Plan had made any changes of this scale in the past. Mr. Montagna indicated that there were similar changes in 1999; the Plan had been offering about 29 investment options that were reduced to roughly 21 options and had hired a new record keeper. Mr. Mumma stated that with almost two years of work expended on this effort, he would not want to change the current path.

Mr. Canzano asked if there was any additional information regarding the availability of the Hartford fund through Schwab. Mr. Montagna stated that all signs indicated negotiations were going well. Mr. Muir indicated that Hartford's negotiations were proceeding well and he expected to have the lower cost share class available. Mr. Mumma asked if the Hartford fund was the only one not presently available through the SDBO. Mr. Montagna indicated that for the Hartford fund, there was a share class currently available but at a higher cost. Mr. Mumma asked how long it would take before Hartford would be able to finalize the negotiations. Mr. Muir indicated he could not speak to the timeline as it was a contract negotiation process between Hartford and Schwab.

Mr. Cannon indicated that changing the implementation date again would add confusion and indicated he favored Option C. Mr. Mumma concurred and stated he did not believe delaying the implementation would garner a different outcome as there was no "best time" to implement this type of change; he commented that even with a healthy economy, pushback against change would be expected.

Mr. Perez asked if staff anticipated any future changes of this caliber to the investment menu. Mr. Montagna indicated that it would be difficult to imagine as this is a model of best practice and consistent with other large plans.

Mr. Schoonover asked whether the availability of similar share classes through the SDBO was discussed in committee. Mr. Montagna indicated there was discussion.

Ms. Bhatia stated that these were huge changes and acknowledged staff's work. She stated that she believed participants still did not understand the changes occurring or had not heard enough about them, despite communication efforts. She commented that though there may not be a best time to implement these changes, the Board had a fiduciary responsibility to note participant feedback. She stated the Plan is meant to be a long-term solution, and that it should not be affected by ups and downs in the economy. She stated she supported Option B.

Ms. Whelan asked staff to provide an overview of the communication efforts. Mr. Montagna indicated that changes were announced in the last quarterly newsletter, which was mailed to participants and uploaded to the participant website. He added that as a result of participant feedback, staff had added a note onto the homepage of the participant site to link directly to these newsletters and also uploaded a web notice regarding the new postponed date. He stated roughly 30-45 days prior to the implementation date, a mailing will be going out to all Plan participants that will provide

detailed information. He stated there is a regulatory requirement that participants be notified of a change to investment options within a 30-60 day window. Ms. Whelan asked how the notification process thus far compared to other plans. Mr. Muir indicated that it was consistent; generally, Plans do want to provide as much notice as possible, but the recency of the communication tends to be important as people may disregard changes occurring too far into the future. He indicated changes like these happen frequently in deferred compensation and defined contribution plans. He added that he believed the process the Plan had followed over the last few years in consideration of these changes had been diligent. Mr. Perez asked for clarification as to when the third quarter newsletter was sent out and whether it was the first communication to the participants regarding the change. Mr. Montagna indicated that the newsletter was the first communication, and that it was sent out at the end of October. He added there would be another announcement in the first quarter 2012 newsletter, to be sent out at the end of January.

Mr. Canzano indicated that the Board would hear from the public regarding this item. Mr. Marshall Rumpf indicated he did not feel he was adequately notified. He stated he did not understand why participants were not notified earlier, as he understood the Board had voted on this matter earlier last year. He disagreed with the thought that there was no good time to make these changes; in his opinion, 2011 had a very good first quarter, a fairly acceptable second, but the third and fourth quarters were extremely volatile. He added that had he known of this change, he would have sold his shares in April to move into the brokerage window. He stated he would claim a substantial loss by selling his shares at this time. He requested additional time to wait for a better time to choose when to move his funds, which ideally would be when the shares were valued at a certain dollar amount. Mr. Canzano asked Mr. Rumpf if he had looked into the brokerage window. Mr. Rumpf indicated he would be able to utilize the brokerage window, but was concerned with the initial transfer of funds as one would need to repurchase in the brokerage window; he believed this would decrease his value.

Mr. Perez asked what the difference was in costs and fees charged in the self-directed brokerage option. Mr. Montagna stated that if Hartford's current share class was made available in the SDBO, there would be no difference in investment management expense but there would be a fee to participate in the SDBO, which would be \$50 per year. Mr. Perez asked what the difference in fees would be if Hartford did not offer its institutional share class. Mr. Montagna indicated there would be a difference of 3-4 tenths of a percent.

Mr. Schoonover sought clarification on whether a participant would be "moving" his/her money or "selling" it. Mr. Montagna indicated that a participant would have to sell and repurchase through the SDBO. Mr. Canzano commented that the net effect or value would still be the same as the transition would occur simultaneously.

Mr. Craig Davis also spoke before the Board and stated that participants need additional information on SDBO fees and how to purchase through the brokerage

window, as he felt that he was receiving conflicting information. He indicated appreciation for the updates to the participant website to highlight the news items.

Mr. Mumma moved to proceed with Option C and to maintain the current implementation timeline, with a caveat for staff to emphasize education and communication efforts. Mr. Cannon seconded. Mr. Kidder clarified the appropriate motion would be to receive and file staff's report to maintain the current course of action.

A motion was made by Mr. Mumma, seconded by Mr. Cannon, to receive and file staff's report; the motion was carried with five affirmative votes (Cannon, Canzano, Mumma, Schoonover, Whelan) and two negative votes (Bhatia, Perez).

7. BOARD REPORT 12-04: FDIC-INSURED BANK DEPOSIT ACCOUNT –
PROVIDER ALLOCATIONS & PROVIDER REQUEST FOR CONTRACT
AMENDMENT

Mr. Montagna indicated staff had drafted changes to the investment policy that would allow changes to the allocation of the FDIC savings account option and take advantage of a higher yield offered by Bank of the West. He stated Bank of the West had originally offered a 1% yield, which was written into the original contract. He indicated that when initially discussing the interest rate floor, Bank of the West had been willing to manage a larger share of total assets at the 1% rate. He stated, however, that within the last month, Bank of the West had requested a lowering of the interest rate floor. He stated that though the 1% is preferable, the .75% rate now offered is still well above market rates. Mr. Muir stated senior management at Bank of the West had re-evaluated in light of the last quarter and market downturn. He noted the Plan does have the option to try and hold the bank accountable to the yield agreed upon in the contract, however, as there was a termination clause he did not feel it would be prudent to risk a termination of contract when the .75% rate is still above what others in the market are offering. Mr. Montagna asked the Board for approval to negotiate the lowering of the interest rate floor.

Mr. Perez asked if it might be anticipated that Bank of the West might come back with a request to lower the rate again. Mr. Muir commented that it is always a possibility, but he believed the intent is to honor the 75 basis points, as Bank of the West acknowledged what was in the contract. Ms. Bhatia asked for clarification regarding the introductory rate language and its term. Mr. Muir indicated no term was established, though there was intent for a sunset should interest rates improve. Mr. Mumma asked for the amount of additional funds that would be given to Bank of the West with the new allocation. Mr. Muir indicated that Bank of the West's allocation would increase by approximately \$50 million; Bank of the West would be responsible for \$150 million with 50% allocation of the savings account.

A motion was by Mr. Mumma, seconded by Ms. Whelan, to a) approve revisions to the Plan Investment Policy Statement to incorporate recommended changes to

the Bank Deposit Savings Account; b) direct staff to negotiate a contract amendment with Bank of the West to incorporate a reduction in the interest rate floor; and c) direct Great-West to allocate 50% of the Bank Deposit Savings Account to Bank of the West and split the remaining balance equally among the remaining providers; the motion was unanimously adopted.

8. BOARD REPORT 12-05: INVESTMENT MANAGER PRESENTATIONS

Mr. Montagna indicated as part of the revised Board meeting structure for 2012, several vendors would be present at one meeting to discuss fund performance. He indicated staff is seeking to create a more meaningful discussion and uniformity in information presentation. He stated Mercer would be presenting its quarterly report as well. He stated that in order to facilitate the interactive discussion, the March Board meeting is recommended to be moved to the City Hall Tower. Mr. Mumma asked what would be improved with the location change. Mr. Montagna indicated the Commission room is not conducive to facilitating a roundtable discussion. Mr. Mumma asked whether having it at different locations like the new Los Angeles Police Department (LAPD) administrative building or the DWP building might not be an opportunity to get more participants involved. Mr. Perez agreed and also commented that the new LAPD building would have audiovisual equipment that might allow for an enhanced discussion. Mr. Montagna agreed, and indicated staff would review the options.

A motion was made by Mr. Perez, seconded by Mr. Mumma, to approve the proposed: a) standardized format for investment provider presentations, b) discussion format for investment providers and the quarterly performance review, and c) change of meeting venue for these meetings, with consideration to different venues; the motion was unanimously adopted.

9. BOARD REPORT 12-06: MERCER CONTRACT EXTENSION

Ms. Gameroz indicated that at the October 18th meeting, the Board approved moving forward with an extension of Mercer's consulting contract from January to June 2012, and also authorized a report to be submitted to Council for approval. She reported that the Council had approved the request for an extension and increase to the ceiling amount; as such, she asked the Board for its approval on the revised amendment.

A motion was made by Mr. Perez, seconded by Mr. Mumma, to a) approve an amendment to extend the contract with Mercer Investment Consulting for six months and increase the amendment ceiling amount by \$87,500, and b) authorize the Board Chairperson to execute the amendment; the motion was unanimously adopted.

10. BOARD REPORT 12-07: 2012 PLAN BUDGET

Mr. Montagna asked the Board to approve the annual recommendation to adopt a budget for the following Plan year. He indicated there were not many changes from the

previous year, and wanted to note the projection regarding the spend-down of the surplus would not be at quite the rate previously expected. He indicated that this was due to the reduction in administrative fees charged by Great-West and a position being staffed in a lower classification. He stated that a consideration to note is that the Plan had recently been provided with an opportunity to ask for an additional position; there had been no time to review with the Board prior, but staff recognized that this decision could not move forward without the Board's approval. He stated that discussion of the additional position would be addressed during the upcoming discussions regarding the Strategic Plan.

A motion was made by Mr. Schoonover, seconded by Mr. Cannon, to adopt the proposed Deferred Compensation Plan budget for the 2012 calendar year; the motion was unanimously adopted.

A recess was taken at 10:35 a.m.

11. BOARD REPORT 12-08: CONTRACT STATUS UPDATE

The Board reconvened at 10:43 a.m. after a recess.

Ms. Chang indicated there were three contracts or Request for Proposals (RFPs) that staff was currently working on. She stated the first is related to the consultant services contract; she indicated responses had been received in December and staff was in the process of reviewing and scoring the responses. She stated the two other RFPs staff are finalizing are for fund custodian services and investment management services (for the second phase of the menu update implementation: small-cap, international, and modification of mid-cap funds). She reported these two RFPs should be issued in the next month, pending clarification of administrative issues related to the City's contracting requirements.

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

12. BOARD REPORT 12-09: QUARTERLY COMMUNICATIONS ACTIVITY REPORT

Ms. Chang indicated that staff was continuing its work on the investment menu change mailer. She stated that staff had met with a focus group in December and was incorporating changes as a result of comments made. She indicated the newsletter for last year's fourth quarter was finalized, which included a reminder of the fund changes coming up and highlighted the April 20 postponement date. Mr. Cannon asked what types of comments were received from the focus group. Ms. Chang indicated that based on the layout of the handout and certain graphic placement, it was unclear to the participants what was happening and if certain fund choices were being recommended over others. She indicated there were items participants thought should be included in the material, such as additional information as to why the change was happening.

Ms. Chang also described the work staff was completing towards the creation of a retirement calculator that will provide an employee with an overall perspective of his/her defined benefit and deferred compensation benefits. Mr. Canzano asked that staff consider conservative timelines when factoring in the length of time a participant will need his/her money to last after retirement.

Ms. Chang reported that the Plan would soon be establishing online enrollment. Mr. Mumma asked when online enrollment would be implemented and whether staff would be sending out communications, such as an e-mail blast. Ms. Chang reported that staff and Great-West expected it to be up in several weeks, and that communications would be distributed. Ms. Chang also reported that staff and Great-West would be working on a website conversion. She stated Great-West had been rolling out new website layouts for other plans and was hoping to do so for the City by late 2012. She indicated the new design would mirror phone applications to make the site more user friendly and accessible to information. She indicated staff would also continue to assess opportunities for webinars and other communication strategies.

Ms. Chang stated staff is continually working on different award entries. Mr. Montagna reported that the Plan had received preliminary notice that it had won an Eddy Award for its Roth communication materials.

A motion was made by Mr. Cannon, seconded by Ms. Bhatia, to receive and file staff's report; the motion was unanimously adopted.

13. BOARD REPORT 12-10: STAFF REPORT

Ms. Chang stated the staff report now contains data from approximately 2009 in all categories for comparison purposes, as requested by Mr. Moutes at the last Board meeting. She reported that for December, 211 participants were assisted at the public counter. She indicated 7 participants elected to defer their accrued leave amounts for a total of approximately \$150,000. She stated there were a total of 50 hardship requests processed, with a total of 43 requests approved for \$246,393. She stated 487 participants elected to obtain a loan, which constituted approximately \$5 million. She stated approximately \$11 million was deferred into the Plan, which constituted a 3.67% decrease year-over-year. She indicated 684 new Roth deferrals were made since the option was made available in August 2011, which constituted a 2.3% participation rate.

Mr. Cannon commented he would have expected to see an increase in Roth accounts after August. Mr. Montagna stated August was the first month in which the Roth option was first made available; the highest volume could be expected then. He added that he had recently met with representatives from other California deferred compensation plans, and had learned that San Diego County had implemented Roth at about the same time. He explained that San Diego County was at about a 1.5% participation rate, so the Plan was tracking above that. Mr. Montagna stated he would expect to see increased activity in January. Mr. Canzano commented that based on his experience

many were still confused regarding the Roth option and unsure if it would be a smart decision; he indicated he would like communication to the participants to encourage contact with a tax adviser, especially during tax season.

A motion was made by Ms. Whelan, seconded by Ms. Bhatia, to receive and file staff's report; the motion was unanimously adopted.

14. BOARD TRAINING – CITY OF LA DEFINED BENEFIT/DEFINED CONTRIBUTION RETIREMENT PLANS

Mr. Montagna stated staff had put together information that would provide perspective on how the City's defined benefit plans (LACERS, Pensions, and DWP Retirement), compared to one another and to the Deferred Compensation Plan, and if any trends or issues could be identified that needed to be addressed.

He indicated asset allocations of the plans are relatively consistent with one another. He stated the only allocation that did vary significantly would be in the percentages of assets invested in international funds. Mr. Perez noted the pension systems are invested more heavily in international funds. Mr. Montagna indicated the international funds portion of the Plan is understated, as there are international investments within the profile funds, which were labeled separately.

Mr. Montagna reviewed the returns for fiscal year 2008-09 across all plans. He indicated the Plan's losses were the lowest compared to the pension systems, which is to be expected given that the Plan is more conservatively invested. He indicated that in the next fiscal year of 2009-10, the Plan did have a lower recovery rate compared to the other pension systems. Mr. Perez stated he had heard that deferred compensation plans normally receive a return that is 1% less than defined benefit plans, when compared over a long period of time; he asked if staff had any comment. Mr. Montagna indicated the comparisons staff had made were over recent fiscal years, but stated it would be interesting to look at returns for both types of plans long-term. Mr. Perez indicated interest in this information, as the City Council has considered the balance between defined benefit and deferred compensation plans.

Mr. Montagna indicated that LACERS had the largest number of participants (active and retired), and the Plan followed soon after. He stated when looking at the number of retirees versus participants, the pension systems are consistent with each other and split almost evenly in these two populations. He indicated the Plan is an outlier with significantly more active members; he indicated it could be attributable to participants cashing out their Deferred Compensation Plan accounts at retirement.

Mr. Montagna indicated that in looking at participation in the Deferred Compensation Plan in comparison to other deferred compensation plans, the City has done relatively well. He stated he had polled several other deferred compensation plans in California and had found that only the County of Los Angeles has a higher percentage rate; he noted that the County offers a match while the Plan does not. He also indicated that

NAGDCA had compiled the rates of its members, for an all plan participation average of 26%, which he indicated was probably on the lower end due to the mix of local and state plan participation rates. He indicated state participations might be lower as it would be more difficult to communicate across numerous agencies. Mr. Schoonover commented that it could also be attributable to state workers participating in Social Security.

Mr. Montagna indicated that in looking at employees contributing to the Plan by department, the lowest two participants are the Offices of the Mayor and Council. He indicated that it was difficult to encourage employees of these offices to enroll in the Plan as many are short-term City employees. Mr. Montagna also stated that in looking at employees contributing to the Plan by bargaining unit, it was evident that the lowest numbers of participants were in the equipment operator, labor, and service employee units. He stated that the hardest part in attempting to reach these job classes was access; Plan representatives would need to go into the field and try to reach these individuals by special arrangement or by participating in work-site meetings when offered.

Mr. Montagna reported that in reviewing participant distribution numbers, only 22% of participants are using their Deferred Compensation Plan account as a supplemental retirement income stream. He explained that would mean 8 out of 10 participants are using these funds in another manner; he stated it could be due to smaller balances that would prove ineffective as periodic payments, or that participants do not have a need for additional income due to the income received through the defined benefit plans. Mr. Perez asked if there should be an emphasis on the Deferred Compensation Plan being a supplemental retirement income stream; he indicated that it could be used alternatively as an extra source of funds or savings. Mr. Montagna indicated that there was no specific emphasis, but explained the original intent when Congress first enacted laws establishing these types of plans was that it would provide an additional income source during retirement. Mr. Montagna indicated tremendous opportunity was being lost, in that participants were not contributing near what the Plan allows; he estimated about 94% of opportunity is not realized, but indicated that this was with the assumption of an employee contributing the maximum yearly limit over 30 years.

Mr. Schoonover commented that it is a common misunderstanding by the employees he encounters that 30 years grants a "full retirement." He indicated many are surprised to learn that most will receive only approximately 65% through the pension systems, as many are starting City employment at about age 45. He indicated many do not have a concrete understanding of what their retirement benefit truly is, nor how it is affected by retiree healthcare and long-term care insurance.

Mr. Canzano stated that from a tax perspective, he would want to know what would be the most tax advantageous method in drawing down funds from a Deferred Compensation account after retirement. He also indicated that for each City defined benefit plan, he would be interested in seeing how much of the plan's assets were allocated to each active or retired participant on average.

Mr. Montagna stated the Employee Benefits Division would be working on a comprehensive benefits survey that would include Deferred Compensation Plan related questions. He indicated the Plan seeks to gain a better sense of what employees are thinking, what the retirement goal intent is, and to identify what employees might know or not know about the Plan. Ms. Basquez indicated the survey will also help identify what non-Plan participants might want to see offered by the Plan. She stated that some goals for the survey would be to determine how to increase participation and how to get current participants to increase contributions. Mr. Perez asked staff how they planned to reach those participants who are limited in accessing information. Ms. Basquez indicated staff would conduct an online survey but would also make available paper surveys for those without access to a computer. She stated staff would ensure feedback from a cross-section of employees, and would return to the Board with appropriate recommendations.

15. REQUESTS FOR FUTURE AGENDA ITEMS

None.

16. NEXT MEETING DATE – February 21, 2012

17. ADJOURNMENT

A motion was made by Ms. Whelan, seconded by Mr. Perez, to adjourn the meeting; the motion was unanimously adopted.

The Board adjourned at 12:10 p.m.