

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
REGULAR MEETING OF JANUARY 20, 2009 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene Canzano, Chairperson
Sangeeta Bhatia
Sally Choi
Richard Kraus
Shelley Smith
Kurt Stabel
Margaret Whelan

Staff:

Personnel: Maryanne Keehn
Steven Montagna
Natasha Zuvich
Ashley Stracke

City Attorney: Steven Hong
Vicky Williams

1. CALL TO ORDER

Mr. Canzano stated that he would like to acknowledge the contribution Deputy City Attorney Richard Bobb provided to the Plan. He indicated that Mr. Bobb would be greatly missed.

2. PUBLIC COMMENTS

None.

3. MINUTES

Mr. Kraus requested that the minutes clarify that the discussion in the first paragraph of item five was regarding the Hartford General Account. Ms. Bhatia requested that the minutes reflect that she asked for comments regarding Northern Trust because of recent negative news concerning its securities lending. **A motion was made by**

Richard Kraus, seconded by Margaret Whelan, to approve the minutes of December 19, 2009; the motion was unanimously adopted.

4. BOARD REPORT 08-47: PROPOSED REVISIONS TO ELECTIONS POLICY

Mr. Montagna stated that this report had been introduced at the November 18, 2008 Board meeting, however no actions were taken at that meeting. He explained that the report was referred back to the Board in order to further discuss the recommendations amending the Elections Policy in regards to the nomination process of retiree candidates, and the inclusion of language regarding third party candidate support.

Ms. Smith stated that she believed the Board did not need to include language in its election policy and procedures regarding State gift rules. In regards to a lower number of signatures being required for the nominating petition for the retiree candidates, Ms. Smith stated that LACERS and Fire & Police Pensions allowed retirees to self nominate and this may be preferred since it was more difficult for retirees to access their constituency.

Mr. Kraus asked Mr. Canzano to describe what was discussed during the Plan Governance and Administrative Issues Committee regarding these two topics. Mr. Canzano stated that after a detailed discussion the Committee had decided it would be prudent to include information regarding third party candidate support since in the past, interested parties had been unaware of the issue. In regards to the nomination process for retired candidates, Mr. Canzano explained that the Committee recognized that retirees may have a more difficult time reaching their constituency, but believed that a small number of required signatures was reasonable.

Ms. Whelan stated that in her experience as a Board member she believed that the retiree network was strong and that requiring retirees to obtain ten to twenty signatures would not be burdensome. She further stated she believed it was important that candidates interacted with their constituency since they represented them.

Ms. Smith indicated that after the conversation she felt comfortable to approve staff's recommendation. **A motion was then made by Shelley Smith, seconded by Richard Kraus, to amend the election policy to allow retiree candidates to obtain "no fewer than ten nor more than twenty" signatures for the nominating petition; the motion was unanimously adopted.** Following this motion, **a motion was then made by Richard Kraus, seconded by Shelley Smith, to approve a recommendation from staff to include section headings in the Board's Election Policies and Procedures; the motion was unanimously adopted.** A motion was then made by Richard Kraus, seconded by Shelley Smith, to approve the recommendation of the Plan Governance and Administrative Issues Committee to amend the Elections Policies and Procedures to include a phrase regarding the use of Employee ID numbers to identify Department of Water and Power participant ballots; the motion was unanimously adopted. Next, a motion was made by Richard Kraus, seconded by Shelley Smith, to approve the

recommendation of the Plan Governance and Administrative Issues Committee to amend the Elections Policies and Procedures to change the scheduled election date from June to May; the motion was unanimously adopted.

The Board then discussed the Committee's recommendation to include a section in the election policy regarding the Board's understanding of the ethics guidelines for third party candidate support. Mr. Kraus indicated that he believed that language should be added to the Elections Policy directing candidates to the various sources they can receive information regarding State and City ethics requirements. Mr. Canzano stated that he was in support of the language as written.

Ms. Smith suggested that there may be other ways to inform candidates of ethical considerations rather than through the Elections Policy. Mr. Kraus stated that other City elections such as those for City Council require candidates to attend ethics training.

Ms. Whelan suggested that rather than including language specifically on third party candidate support, the Elections Policy could refer candidates to the appropriate code sections regarding ethics. Ms. Smith indicated that she believed this was a viable alternative to the proposed language. Mr. Stabel stated that he believed that it would be proactive to include language directing candidates to the appropriate resources regarding ethics. **A motion was then made by Eugene Canzano, seconded by Richard Kraus, to direct staff to draft language to amend the Election Policies and Procedures to refer candidates to the appropriate resources for information on third party candidate support; the motion was unanimously adopted.**

Following this discussion, Mr. Montagna introduced Deputy City Attorney Steven Hong as the recently appointed City counsel to the Plan.

5. BOARD REPORT 08-52: PENSIONS & INVESTMENTS CONFERENCE

Mr. Montagna indicated this report had been brought to the Board at the December meeting. He stated no consensus had been reached at that meeting which was why the matter was being returned to the Board. Mr. Montagna reiterated from the previous meeting that staff was recommending the Board authorize funding for a Board member to attend the Pensions and Investments East Coast Defined Contribution Conference in Miami Beach, Florida.

Mr. Stabel asked for details regarding the budget for the Board's educational expenses. Mr. Montagna replied that the Plan had a budget already in place, which included the annual NAGDCA conference. Mr. Stabel next questioned the remaining dollar amount after the 2008 NAGDCA conference. Mr. Montagna replied that staff would need to review those numbers and report back. Mr. Stabel stated even with the poor economy it was important for Board members to be well-trained and have current information.

Ms. Smith indicated she was not present at the last Board meeting to add to the discussion. She voiced the importance of continuing education, especially since the

Board has several new members. Ms. Smith indicated she has attended conferences with Mr. Canzano and expressed that he is an extremely dedicated, conscientious Board member who obtains the fullest value of every conference he attends. **A motion was made by Shelley Smith, seconded by Margaret Whelan, to approve the necessary funding for one Board member to attend the Pensions & Investments East Coast Defined Contribution Conference in Miami Beach, Florida; the motion was unanimously adopted.**

Mr. Canzano indicated that with the growth of the Plan it was important for the Board to keep itself well-informed of issues affecting the Plan. He further noted that another reason for attending this particular conference was that the Plan had won an Eddy Award for Best Practices in Defined Contribution investment education.

Ms. Smith volunteered to work with staff to identify budget/policy objectives around education as well as preferred conferences within the industry. Mr. Canzano responded that he would be happy to do the same. Mr. Kraus noted that staff routinely presented conference information in the Board packets. He suggested this topic be brought to the next Plan Governance and Administrative Issues Committee meeting. Mr. Canzano indicated this was an excellent suggestion and noted that any Board member could attend these meetings since they were dual agendized as Board and Committee meetings.

6. BOARD REPORT 09-01: WATCH STATUS

Mr. Montagna indicated this report was generated in response to Mercer Investment Consultant's quarterly investment performance review for the period ending September 30, 2008. He stated staff was recommending that the Hartford Advisers Fund and Hartford Stock Fund be placed on Watch status.

Mr. Montagna further explained funds could be on Watch status for a period of at least two and not more than six quarters. He stated that the first effective quarter on Watch would be the quarter ending September 30, 2008. He noted that if the funds were to be placed on Watch from that effective quarter, the Board would have the option of terminating the funds after the Consultant's review period ending December 31, 2008.

Susan Dalton, Principal with Mercer Investment Consulting, stated the fourth quarter investment performance review was scheduled for the March 17, 2009 Board meeting. Mr. Canzano questioned whether the earliest date to terminate the funds would be March 2009. Ms. Dalton responded affirmatively. She further noted that both funds were previously on Monitor status beginning with the second quarter of 2006, and the most recent report indicated deteriorating performance. She further noted the termination of these funds might work well with the overall direction of the Plan's consolidation of funds on the investment menu. **A motion was then made by Shelley Smith, seconded by Margaret Whelan, to place the Hartford Advisers Fund and Hartford Stock Fund on Watch status for a period of at least two and not more**

than six quarters, with the first effective quarter on Watch being the quarter ending 09/30/08; the motion was unanimously adopted.

7. BOARD REPORT 09-02: CHAIRING OF BOARD MEETINGS

Mr. Montagna explained that in recent months there had been several meetings in which both the Chairperson and Vice-Chairperson were unable to attend. He stated that staff believed that it would be prudent to develop policy regarding who should chair meetings, in successive order, in the absence of both the Chairperson and Vice-Chairperson.

Mr. Montagna stated that staff had researched models of other governing bodies. He stated that there were three general models for dealing with this issue: (a) position succession, in which there were multiple leadership positions; (b) seniority succession, which determined the chair based off the number of years served; and (c) a meeting-by-meeting approach in which the chair was selected by taking a vote at each meeting. He explained that staff recommended that the Board use a variation on positional succession in which three provisional chairs would be named.

Mr. Canzano stated that he was in favor of approving staff's recommendation of appointing provisional chairs, but indicated that he would prefer to appoint the provisional chairs at a meeting that all Board members could be in attendance. Ms. Whelan stated that she believed that since this had happened twice in recent months it may be prudent to appoint the provisional chairs at the current meeting. Mr. Canzano stated that he supported selecting the chairs at the current meeting if the provisional chairs could again be selected for a full term starting July of 2009. After some discussion, **a motion was then made by Shelley Smith, seconded by Margaret Whelan to a) adopt the proposed policy outlined in the report regarding establishing a succession order for chairing of Board meetings b) appoint Richard Kraus as first provisional chair, Shelley Smith as second provisional chair, and Margaret Whelan as third provisional chair; the motion was unanimously adopted.**

8. BOARD REPORT 09-03: SDBO INVESTMENT ADVICE

Mr. Montagna stated that staff had received two communications regarding services offered by Charles Schwab, the Plan's Self Directed Brokerage Option (SDBO) provider. He explained that in one of the communications a participant had requested that the Plan allow the use of Schwab's advisory referral services. Mr. Montagna explained that the service would allow interested participants to choose from a list of 200 independent advisors that have a relationship with Schwab to trade through the SDBO and that this was available to participants with \$500,000 or more in assets. Mr. Montagna stated that staff was recommending that the Board direct staff to conduct further research into the possibility of permitting the use of investment advisors both within and outside the SDBO.

Mr. Montagna continued by stating that staff had received another communication from a participant requesting that participants in the SDBO be allowed to use Schwab's third-party trading option. He explained that staff was recommending that the Board direct staff to conduct further research into this option as well. Mr. Kraus asked if the third-party trading option had an asset limit. Mr. Montagna stated that it did not.

Mr. Montagna indicated that staff still needed to research how Schwab chose investment providers and whether there was any potential liability for the Plan in allowing participants to use this service. Mr. Stabel stated that many firefighters he had spoken with had expressed an interest in using an independent financial advisor. He asked that staff look into how independent the advisors are from Schwab and what qualifications they must have. **A motion was made by Richard Kraus, seconded by Margaret Whelan, to refer to staff and the Plan consultant further study and development of recommendations with respect to permitting the use of independent investment advisors (including a limited investment advisor referral service), and third-party-trading through the Plan's Self-Directed Brokerage Option provider, Charles Schwab; the motion was unanimously adopted.**

9. BOARD REPORT 09-04: ENROLLMENT INITIATIVE

Natasha Zuvich presented staff's report regarding its 2009 Enrollment Initiative. Ms. Zuvich first discussed efforts to create an interface with the City's Flex Benefits website requiring an election to either participate or not participate in the City's Deferred Compensation Plan. She explained that the interface would, depending upon the employee's response, take them to the Deferred Compensation Plan website where they could process their enrollment, make account changes, or obtain information; or, if the participant elected not to enroll, provide them with a short questionnaire to determine their reasons for not participating. She added that staff had been exploring a similar functionality with the DWP benefits website and was making progress, but that sworn Police and Fire plan providers had informational websites only, so it was likely that posting information would be their only option.

Ms. Zuvich next discussed staff's efforts with Great-West to create online enrollment for the City's Plan, in which participants could provide all of their information electronically through the Plan's website without having to submit a paper form. She indicated this effort was underway and staff would be providing ongoing updates.

Ms. Zuvich next described efforts to expand the enrollment facility offered through the Flex Benefits enrollment booklet. She stated that currently the booklet provides only a page of information about the Plan at the end of the booklet, but that shortly it will include a tear-out from the middle which will include a description of the Plan, the enrollment form, and a postage-paid envelope. She indicated that this would not only promote the Plan more effectively but make it much simpler for an employee to obtain enrollment materials and act on them. Finally, Ms. Zuvich indicated that staff had been continuing its efforts to create targeted enrollment campaigns and that a report on these efforts would be submitted next month.

Mr. Kraus asked if references in the communication materials to the City's retirement plans could spell out the names of those plans to make it clearer to participants. Ms. Zuvich indicated this could be done. Mr. Canzano asked if the asset allocation funds could include some type of legend or other means of describing their sub-components so that participants would have a better understanding of what they were investing in. Ms. Zuvich indicated this could be modified as well.

10. BOARD REPORT 09-05: STAFF REPORT

Mr. Montagna presented the monthly staff report. He indicated that staff had presented the follow-up report to Personnel Committee on the financial condition of the Plan and that Committee Chair Dennis Zine had received the report favorably and asked for future report-backs for the duration of the current financial downturn.

Mr. Montagna next indicated that staff had processed 2,318 deferral changes for the first payday of January and that this was slightly higher than the average for a year with contribution limit increases. He indicated that staff was working with the Controller on automated feeds of this information from Great-West to the City's payroll system and that he expected this to be implemented in the first quarter of 2009.

He next indicated that five of six responses to the Board's Request for Proposal for a Stable Value fund provider were found to have passed the Standard Provisions review and were presently being evaluated by the Plan's consultant. He stated that the FDIC-Insured Savings Option RFP had just been released and responses were due March 5th.

He noted that staff was working on contracts for the Board's consultant and Russell 2000 Index fund provider. Mr. Kraus asked if there were any problems with the Russell 2000 contract, and Mr. Montagna responded that there were the typical logistics of coordinating input from program staff, attorneys on both sides, and the Personnel Department's Administrative Services Division.

Mr. Montagna indicated that the next Investments Committee meeting would be held on February 13th, and that staff was working with City Attorney Steven Hong on its fiduciary issues presentation and draft by-laws. Finally, Mr. Montagna noted that staff had been engaged in a proactive effort to conduct pre-audit testing of the Plan in anticipation of a potential future IRS audit. He indicated that contributions limit testing had been done last year and yielded some process improvements, but that other areas would be examined and staff would report back to the Board on those results.

Mr. Canzano noted the reduction in new loans during the month of November. Discussion on this item then concluded.

11. REQUEST FOR FUTURE AGENDA ITEMS

Mr. Kraus asked if there would be an update regarding the Northern Trust discussion at the December 19, 2008 meeting. Susan Dalton of Mercer Investment Consulting was present and indicated a response would be forthcoming.

12. NEXT MEETING DATE – FEBRUARY 17, 2009

13. ADJOURNMENT

A motion was then made by Margaret Whelan, seconded by Sally Choi, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 10:40 a.m.

Minutes prepared by staff members Steven Montagna, Natasha Zuvich, and Ashley Stracke.