

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JANUARY 21, 2014 - 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
Ray Ciranna
Margaret Whelan

Not Present:

Michael Amerian
Robert Schoonover

Staff:

Personnel:

Steven Montagna
Esther Chang
Paul Makowski

Alejandrina Basquez

City Attorney:

Curtis Kidder

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:05 a.m.

2. PUBLIC COMMENTS

No public comments were made.

3. MINUTES

Curtis Kidder noted a technical correction to the discussion in the minutes regarding the relationship of state law to automatic enrollment, which was provided to staff and the Board. **A motion was made by John Mumma, seconded by Tom Moutes, to approve the December 17, 2013 Regular Meeting minutes as amended; the motion was unanimously adopted.**

4. QUARTERLY INVESTMENT REVIEW

Devon Muir, of Mercer Investment Consulting, Inc., introduced himself to the Board and indicated that he would provide a review of Plan investment options for the third quarter of 2013. He began with a review of market performance for the third quarter of 2013 with comparison to year-to-date (YTD) performance and indicated that equity markets overall performed very well, making particular reference to the performance for the S&P 500, Russell 2000, and MSCI EAFE. He indicated that emerging markets were the only area within equity markets that underperformed. Mr. Canzano asked what implications could arise from the strong growth with the Russell 2000 performance. Mr. Muir indicated that he would not be surprised to see some slowdown or flat performance but indicated that it is unlikely for that fund to continue with the same growth. Mr. Canzano asked if small cap performance was a good leading indicator. Mr. Muir indicated that the equity markets in general can be thought of that way as they anticipate growth six quarters ahead. Mr. Canzano asked why Barclays US TIPS had performed so poorly YTD. Mr. Muir indicated that TIPS are long maturity bonds and have two main components, one being the Consumer Price Index and the other being interest rates. He indicated that low inflation and rising interest rates created a situation where these long maturity bonds underperformed.

Mr. Muir continued the investment review indicating that third quarter interest rates were very volatile. He indicated that the Federal Reserve announcement of a \$10 billion reduction in purchases during the third quarter had an effect of putting negative pressure on returns. He added that the market expects the Fed to continue reducing asset purchases.

Mr. Muir then reviewed the investment option array of the Plan, identifying the Plan's portfolio investment options as Tier 1, the core investment options, which consist primarily of stock and bond investment options, as Tier 2, and the Self-Directed Brokerage Option as Tier 3. He stated that the Board took action in December towards streamlining a search process for a mutual fund manager search which is anticipated to move forward in 2014 toward completion of equity fund structures. Steven Montagna added that staff will bring a recommendation to incorporate the fund search process into the Investment Policy at the next meeting of the Board and a proposal for moving forward with the mutual fund manager search. Mr. Muir added that he will be meeting with staff to help develop an implementation timeline.

Mr. Muir reviewed a summary of asset allocations and noted the predominant holdings to be in the Deferred Compensation Stable Value Fund at 22% and the DCP Large Cap Stock Fund at 32% of total Plan assets. He explained that in the third quarter Plan assets were up \$173 million quarter over quarter. He then reviewed an expense analysis and noted that the weighted average of investment costs was 19 basis points and total costs came to 26 basis points.

Mr. Montagna asked if stable value fund returns were bottoming out. Mr. Muir responded negatively. He explained that when rates rise there is an expectation for the stable value fund to lag to a certain degree and, conversely, when rates fall there is a tendency to outperform in the short term. Mr. Mumma asked about the iMoneyNet comparison in the September 30, 2013 ending summary performance. Mr. Muir indicated that iMoneyNet is a money market benchmark in the stable value arena. Mr. Muir concluded the presentation by reviewing the performance of Deferred Compensation Plan Investment Menu Composite Benchmarks.

5. TAX AND REGULATORY TRAINING

Donald Wellington, a partner of Steptoe Johnson LLC, introduced himself to the Board and distributed copies of the presentation on tax and regulatory training along with copies of the City of Los Angeles Board of Deferred Compensation Plan Document. He prefaced his presentation by reviewing goals and explained that the training is intended to provide an overview of Internal Revenue Service (IRS) tax rules that apply to inflows, funds coming into the Plan, and outflows, funds going out of the Plan, and that he intends to tie those IRS rules to their applicable places within the actual Plan document.

Mr. Wellington first discussed the tax advantages and the scope of Section 457 Rules. He indicated that the City of Los Angeles Deferred Compensation Plan is not subject to the Employee Retirement Income Security Act (ERISA) but reviewed requirements that other organizations must uphold in order to retain 457(b) eligibility and avoid being subject to ERISA which includes a requirement of limiting Plan participation to highly compensated employees. Cliff Cannon asked what defined a highly compensated employee. Mr. Wellington responded that the IRS did not define the term, but that organizations could go by the IRS tax tables and may choose to target employees who gross more than \$115,000 annually.

Mr. Wellington then continued reviewing Plan participation and payroll contribution types and limits, and started a discussion of Auto-Enrollment where he explained that Federal legislation passed in 2006 makes it easier for plans subject to ERISA to implement an auto enrollment program. He said that plans which are not subject to ERISA, like the City of Los Angeles, must look closely at state law to determine their ability to implement an auto enrollment program. He concluded review of the inflows of dollars into the plan, covering catch-up, payroll tax withholding, an employer matching feature, and other contributions.

Mr. Wellington began discussion about the outflows from the Plan and discussed Required Minimum Distributions (RMD). Mr. Canzano asked if RMDs are subject to Roth accounts. Mr. Wellington said that Roth accounts in 457 plans are still subject to the RMD but participants can roll their money over to a Roth IRA account that is not subject to RMD. Mr. Wellington explained that the RMD requires a withdrawal of about 1/10th or 1/20th of the account balance for each year. Mr. Cannon asked for clarification on the 1/10th and 1/20th withdrawal amounts. Mr. Wellington indicated that the

withdrawal amount depends on the participants' age, and the age of any beneficiary, and said that tables are established addressing the required withdrawal percentage, but the area can become quite complicated. He noted that a best practice for Plan administration is to identify individuals who are nearing the RMD age and to send them letters early and often as the penalties for not taking the RMD are substantial.

Mr. Wellington then discussed financial hardships and indicated that the rules for an "unforeseeable emergency" are very restrictive and require ample documentation to support decisions. He explained that the rules specify certain qualifying events, such as a home foreclosure or eviction, but that the rules are written to only allow action at an emergency stage. Ray Ciranna asked if these rules were detailed on the subject of foreclosure. Mr. Wellington explained that in regards to foreclosure, a threat of foreclosure alone would not substantiate approval for an "unforeseeable emergency" and the applicant would have to provide an actual notice of foreclosure. Mr. Wellington continued discussion of tax issues and considerations with distributions, service credit purchases, rollovers/transfers, Qualified Domestic Relations Orders, loans, and military service.

Mr. Wellington then concluded the presentation and asked for questions. Mr. Mumma asked about repayment options available for military service repayment and asked if single check deposits could be made. Mr. Wellington indicated that typically the payment needs to be made through payroll deduction. He added that he would need to review further to see if a contribution could be made in a single check payment.

Mr. Moutes asked if the IRS permits 457 plans to request a letter of determination, as is done for defined benefit plans, for an administrative review of their plan. Mr. Wellington indicated that there is a private letter ruling procedure which allows for the IRS to review the Plan document. He added that the IRS will also provide model amendments whenever the tax law changes and this provides plan administrators with an option for guidance without requesting a private letter ruling.

Gary Robison of Great West Financial asked for confirmation about RMD rules, asking if a beneficiary is required to take the RMD based on the age of the decedent. Mr. Wellington replied affirmatively. Mr. Canzano asked for confirmation about RMD for active employees being delayed until they retire. Mr. Wellington replied affirmatively.

Mr. Canzano asked for an expanded discussion on the issues of in-Plan Roth conversions. Mr. Wellington indicated that the framework is already in the Plan document to allow for the in-Plan conversion. He indicated that the same rules apply as if it were a distribution event for a separated employee except that the event would not require separation from City service. He cautioned about the five year requirement for people who do not have a previous account Roth balance, in which a tax penalty applies to distributions taken from Roth accounts held for less than 5 years. He also cautioned about the tax implications that will occur for participants who convert pre-tax dollars to Roth after-tax, in that they will be required to pay those taxes during their tax filing period. Mr. Montagna asked for an update from Great West on the status of in-

Plan conversions. Lisa Tilley of Great West Financial indicated that they had been waiting for guidance that was just issued in December and that they are reviewing this and working to build an election form and create communications informing and educating participants about the conversion option.

6. BOARD REPORT 14-01: ELECTION OF OFFICERS

Esther Chang reviewed the staff recommendation for the Board to conduct its Election of Officers for the period of January 2014 through December 2015. Margaret Whelan nominated the current list of officers to retain their current positions as follows: Eugene K. Canzano as Chairperson, John R. Mumma as Vice-Chairperson, Cliff Cannon as First Provisional Chair, Tom Moutes as Second Provisional Chair, and Sangeeta Bhatia as Third Provisional Chair. There were no additional nominations. **A motion was made by Ms. Whelan, seconded by Mr. Moutes, to renew the current list of Officers in their current positions for the 2014-2015 period; the motion was unanimously adopted.**

7. BOARD REPORT 14-02: QUARTERLY BUDGET REVIEW AND REIMBURSEMENTS

Paul Makowski reviewed the report for staff reimbursements and indicated that the total proposed reimbursement amount for the third quarter of 2013 was \$172,854.22 for Personnel staff and \$24,206.28 for the City Attorney. Mr. Mumma asked why there was such a large increase in staff reimbursement from the previous quarters. Mr. Montagna indicated that the increase was largely attributable to the increased CAP rates, which are now at 143.69% for Personnel staff. **A motion was made by Sangeeta Bhatia, seconded by Mr. Cannon, to receive and file the status report on Deferred Compensation Plan budget accounts for the quarter ending 9/30/13; the motion was unanimously adopted. A second motion was made by Ms. Bhatia, seconded by Mr. Mumma, to approve reimbursement from the Deferred Compensation Plan Reserve Fund account to the Personnel Department in the amount of \$172,854.22 and City Attorney in the amount of \$24,206.28; the motion was unanimously adopted.**

8. BOARD REPORT 14-03: DEFERRED COMPENSATION PLAN BUDGET 2014

Mr. Makowski reviewed the report for the proposed 2014 budget and projected revenues and expenditures. Mr. Ciranna asked if there was any historic budget data available for the Board to review. Mr. Montagna indicated that staff could prepare a report for the Board. **A motion was made by Mr. Cannon, seconded by Mr. Mumma, to adopt the 2014 Plan Year budget for the Deferred Compensation Plan; the motion was unanimously adopted.**

9. BOARD REPORT 14-04: 2014 BOARD ELECTIONS

Ms. Chang reviewed the report on the upcoming elections for the active LACERS and active LAFPP Participant Representative Board member seats. She indicated that the election nomination process would begin in March 2014 with a deadline to submit petitions and ballots being mailed in April 2014, concluding with an election day scheduled on May 16, 2014. She added that staff would continue to provide update reports to the Board as the election process continues. **A motion was made by Mr. Moutes, seconded by Mr. Cannon, to receive and file the report on upcoming Board elections; the motion was unanimously adopted.**

10. BOARD REPORT 14-05: 2013 MEETINGS ATTENDANCE REVIEW

Ms. Chang presented the report on 2013 Meeting Attendance by Board members and briefly reviewed the attendance at the Regular, Special, and Committee meetings held during the year. Ms. Bhatia noted a small typographical error to the year of each meeting date listed on Attachment 1. Ms. Chang confirmed that all dates should be 2013. **A motion was made by Ms. Bhatia, seconded by Mr. Mumma, to receive and file the 2013 Board and Committee meeting attendance report, as amended; the motion was unanimously adopted.**

11. BOARD REPORT 14-06: STAFF REPORT

Ms. Chang reviewed activity for the month of December 2013 and reviewed counter, accrued leave, hardship, loan, and Roth statistics. She then reviewed responses to questions that were raised during the presentation of the Great West quarterly report at the December 2013 staff meeting. Mr. Montagna added discussion of staff updates for Automatic Enrollment and Investment Policy Changes and Fund Searches. Mr. Canzano asked about the status of the contract amendments that went to City Council. Mr. Montagna confirmed that they were approved by City Council. Mr. Ciranna asked for a twelve month average to be added to the Loan Activity section of the staff report. **A motion was made by Mr. Mumma, seconded by Mr. Moutes, to receive and file the staff report; the motion was unanimously adopted.**

12. REQUESTS FOR FUTURE AGENGA ITEMS

Mr. Moutes asked for a report evaluating the ability to have a private letter ruling or determination letter to have the Internal Revenue Service review the Plan document. Mr. Canzano asked for a communication update on Roth education.

13. FUTURE MEETING DATES

The next Regular Meeting is set for February 18, 2014.

14. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Mumma, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:11 a.m.*

Minutes prepared by staff member Paul Makowski.