

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING OF OCTOBER 17, 2006 – 9:00 A.M.  
700 E. TEMPLE STREET, ROOM 350

Board Members:

**Present:**

Maggie Whelan, Chairperson  
Bill Stein, Vice-Chairperson  
Eugene K. Canzano  
Joya C. De Foor  
Don Keith  
Richard Kraus  
Shelley Smith

Staff:

Personnel: Maryanne Keehn, Personnel  
Steven Montagna, Personnel  
Bryan Cowitz, Personnel  
JoAnn Dominguez, Personnel  
Natasha Zuvich, Personnel  
Richard Bobb, City Attorney

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:32 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Richard Kraus requested one addition to the discussion concerning survey demographics. **A motion was then made by Bill Stein, seconded by Eugene Canzano, to approve the minutes of August 15, 2006; the motion was unanimously adopted.**

4. BOARD REPORT 06-30 REQUEST FOR PROPOSAL FOR DEFERRED  
COMPENSATION PLAN ADMINISTRATION

Maggie Whelan began by noting that Board members Shelley Smith and Don Keith would be leaving the Board as a result of the rotation programs of their respective retirement systems. She thanked Ms. Smith and Mr. Keith for their service on the Board and indicated that she hoped they could both continue to be involved with the Plan going forward.

Ms. Whelan then indicated that with respect to the Request for Proposal the Board was now at the end of a process that had began almost four years ago. She stated that the ongoing objective since conclusion of the prior RFP process had been to create a transparent and objective process. She expressed her appreciation for the participation and support of Board members, staff and the competing firms.

Steven Montagna first asked the Review Committee members to introduce themselves to the Board. Andrew Ness, Senior Consultant with Mercer Investment Consulting, indicated that he had worked with approximately twenty defined contribution plans in his career with Mercer and fifteen selection processes, and also written a white paper and recently led a panel discussion on RFP processes at the recent NAGDCA conference. Jon Springer indicated that he was a retired manager from the State of Oregon Deferred Compensation Plan, a plan with 20,000 participants and \$900 million in assets. He indicated he had participated in a similar plan administrator selection process for the State which included the same three vendors which bid on the City's Plan for this RFP.

Mr. Ness next discussed the rating factors and weightings approved by the Board and used by the Committee members to evaluate the responses. He indicated that both the factors and weightings were consistent with those he has seen in other large governmental defined contribution provider searches. Mr. Springer described the review process, indicating that the Review Committee took a bottom-up approach, first independently reviewing and scoring the responses, then conducting a nine-hour meeting to review each question and response and generate unified scores.

Mr. Montagna next began moving through the different evaluation categories within the staff report. Under the category of Organizational Qualifications, Mr. Kraus asked for additional details regarding Great-West's prior challenges in bidding situations. Mr. Montagna read from Great-West's response to that question in the RFP. The Committee was also asked for more specifics regarding turnover; Mr. Ness responded that these questions were in regard to overall turnover within the organization, but other questions later in the RFP focused on more specific sub-groups.

Under the Participant Services category, Mr. Kraus asked about Great-West's exceptions to continuous staffing at the local office. Mr. Montagna indicated that these included primarily training opportunities for their local staff at which they preferred to have all of their staff members present. Eugene Canzano asked whether all of the call centers were based in the United States, and Mr. Ness indicated they were. Mr. Canzano asked the same question when the discussion turned to the Brokerage Window category; Mr. Ness indicated the RFP had not posed that question.

Under the Fees category, Mr. Kraus asked how the fee proposal would affect the fees currently charged to Plan participants. Mr. Montagna indicated that regardless of which vendor was selected the Plan would see a reduction in fees. He stated that this could potentially reduce the per-participant fee by one to two basis points, although the Board had been discussing other options for fee reductions, including capping the fees of participants with large account balances and reducing the contributory fifty-cent fee.

Mr. Montagna then briefly reviewed the results of the Pension Savings Plan scoring. He indicated that the Review Committee had recommended to the General Manager Personnel

Department that Great-West be selected as the provider for that program. In conclusion, Mr. Montagna indicated that based on the strength of Great-West's written proposal, the quality of its proposed services and competitive fee proposal, the Review Committee was recommending that the Board select Great-West as Plan Administrator.

Ms. De Foor indicated she would be interested in hearing presentations from finalist firms. Mr. Montagna indicated that the RFP did not provide for finalist presentations to be part of the evaluation process. Other Board members indicated that they were satisfied with the work of the Review Committee and believed it would be inappropriate to change the evaluation procedure outlined in the RFP.

**As a result, a motion was made by Shelley Smith, seconded by Bill Stein, to select Great-West Retirement Services as recordkeeper/administrator for the Deferred Compensation Plan pursuant to the Board's June 21, 2006 Request for Proposal for Plan Administrative Services; the motion was unanimously adopted.**

#### 5. BOARD REPORT 06-31: QUARTERLY INVESTMENT REVIEW

Mr. Montagna introduced the discussion by indicating that staff had been working with the Plan consultant in reviewing the performance of the investment funds within the Plan as well as developing proposed policies for dealing with under-performing funds. He stated there would be discussion of these policy recommendations in the context of some of the specific problems Mercer identified in its review.

Marina Batliwalla, Principal Consultant with Mercer Investment Consulting, began her review by indicating that the City's Plan had a broad array of funds, with some redundancy in its large-cap offerings. She then referred the Board to a summary page of the presentation booklet which broke out fund performance and noted those funds whose performance had been designated as "unsatisfactory."

Ms. Batliwalla proceeded to discuss each individual fund, noting which funds were recommended as "Retain" and which were recommended to be placed onto "Monitor" or "Watch" status. The first fund recommended to be in one of the latter two categories was the Hartford Advisers Fund. Don Keith asked why a fund which had under-performed in so many different periods was not being placed onto "Watch" status immediately. Ms. Batliwalla replied that while the Fund had under-performed it had not done so by wide margins so she did not see the same level of seriousness as with some of the other funds.

The next problem fund discussed by Ms. Batliwalla was Fidelity Magellan. She stated that it has been under-performing for quite some time and that many retirement plans were having to address this. Ms. Smith noted that this investment offering was a strong example of investor inertia and brand loyalty in the face of sub-par performance. Ms. Batliwalla continued by discussing Investment Company of America and Hartford Stock Funds, both recommended to be placed onto "Monitor" status, and the Lotsoff Small Capital Equity Fund, recommended for "Watch" status.

Ms. Smith indicated her agreement with both the findings of the consultant with respect to the individual investment options as well as the recommended policies for monitoring and removal. Mr. Keith indicated his appreciation for the development of these policies as he

believed it was important progress for the Board. Ms. De Foor suggested that the consultant's findings be placed onto the Plan website. Ms. Whelan asked Great-West how this communication would be handled. Usha Archer of Great-West Life was present in the audience and indicated that summary information could be included in quarterly statements as part of the fund detail.

Following this discussion, **a motion was made by Joya De Foor, seconded by Shelley Smith, (a) approving policies establishing Deferred Compensation Plan investment fund performance expectations and/or identifying investment process concerns as detailed in Report #06-31, including policies for placing Plan funds on "Monitor" or "Watch" status, and removing funds which fail to correct under-performance or investment process concerns; and (b) placing the Hartford Advisers HLS, Hartford Stock HLS, and American Funds Investment Company of America funds on "Monitor" status and the Fidelity Magellan and Lotsoff Small Cap Equity funds on "Watch" status for a period of four quarters or until performance/other investment concerns improve, or unanticipated negative developments result in a recommendation for termination prior to completion of the four quarters; the motion was unanimously adopted.**

## 6. BOARD REPORT 06-32: BOND MANAGER SELECTION

Mr. Montagna indicated that this report was presented on behalf of the Investments Committee regarding choosing a replacement for the MSIF Trust Core Plus Fixed Fund. Mr. Montagna stated that the Board had authorized a search process for this investment category after a review and analysis by the consultant identified concerns over the management and performance of the incumbent. He indicated that after an RFP process which resulted in few responses, the Board directed the consultant to conduct a broader investment manager search; finalists were identified and interviews referred to the Investments Committee. He stated that the Committee had conducted its interviews and was recommending that PIMCO replace the incumbent.

Mr. Montagna went on to indicate that as part of its work, the Investments Committee looked at options for how an incumbent fund could or should replace an existing fund, which were outlined in the report. Mr. Montagna stated that essentially the issues were (1) over how long a period, if any, should an incumbent fund be offered alongside a replacement fund; and (2) during that period, should participants be allowed to put new money into the incumbent fund.

Board members debated the options presented in the staff report, considering the interests of making a quality fund available as soon as possible as well as giving participants ample advance notice to move their funds independently if they wished. The consultant noted, and Board members acknowledged, that the performance of the incumbent had improved, but that selection of the PIMCO fund nevertheless represented a best-of-class selection. Following this discussion, **a motion was made by Shelley Smith, seconded by Don Keith, adding the PIMCO Bond Fund as soon as practical while allowing the incumbent fund to be offered for six months following the announcement of its discontinuance to Plan participants; the motion was unanimously adopted.**

## 7. BOARD REPORT 06-33: DROP COMMUNICATION STRATEGY/MATERIALS

Mr. Montagna indicated that staff and Great-West had been working together to develop communication materials for DROP participants interested in rolling their funds over to the Deferred Compensation Plan. He stated that the intent was to make the process as user-friendly as possible for participants, so that all of the necessary forms could be provided to them at one time and they would not be required to go back and forth from Pensions to the Deferred Compensation Plan obtaining signatures. Finally, Mr. Montagna noted that development of the questionnaire was an important part of the communication package because the rules around tax issues and DROP distributions were confusing. The Board received and filed the report.

## 8. BOARD REPORT 06-34: STAFF REPORT

Mr. Montagna presented the staff report, first discussing the efforts made by staff and Great-West for National Save for Retirement Week. Mr. Montagna stated that an informational flyer, buttons, stickers, T-shirts and giveaways were all in a state of production as promotional items. He further noted that staff had been working closely with the City's three retirement systems in an effort to partner the promotion, and that the response from all three had been very favorable.

Mr. Montagna next discussed the matter of a Wachovia agent soliciting City employees for business by representing himself as being associated with the Deferred Compensation Plan. Richard Bobb indicated that correspondence had been issued to the agent and to Wachovia, and that separate correspondence had been generated by Great-West to Wachovia's legal counsel. Ms. De Foor asked whether the City should also send correspondence to Federal regulators, and Mr. Bobb indicated that what had already been sent was likely sufficient, especially because it was his understanding that regulators would be unlikely to act on something like this. Ms. Whelan asked that separate correspondence be generated to departmental personnel officers. Ms. De Foor indicated she would attempt to bring this matter to the attention of department heads.

## 9. HARDSHIP APPLICATIONS

The Board first considered those hardship applications recommended for approval for which no applicant was present. **A motion was made by Shelley Smith, seconded by Bill Stein, to approve full withdrawals in Case Nos. 06-42 and 06-43, respectively; the motion was unanimously adopted.**

The Board next considered Case No. 06-38. The applicant was present. Board members debated the question of whether the loss of a roommate's income should be qualifying for hardship withdrawal purposes. **A motion was made by Shelley Smith, seconded by Eugene Canzano, to approve a full withdrawal in Case No. 06-38; the motion was unanimously adopted.**

The Board next considered Case No. 06-39. The applicant was not present. **A motion was made by Joya De Foor, seconded by Bill Stein, denying the application in Case No. 06-39; the motion was unanimously adopted.**

The Board next considered Case No. 06-40. The applicant was present. Board members debated the question of whether the financial consequences of a small business venture should be qualifying for hardship withdrawal purposes. **A motion was made by Don Keith, seconded by Shelley Smith, approving a withdrawal equal to the mortgage arrearage; the motion was adopted by a vote of 4-3 (Canzano, Keith, Smith and Whelan in favor; De Foor, Kraus and Stein opposed).**

The Board next considered Case No. 06-41. The applicant was present. Board members debated the question of under what circumstances overtime income can be considered unforeseen wage loss. Mr. Montagna indicated that in the past it had only been approved for Firefighters working out of Fire stations, but that the Board could opt to expand its qualification to include Airport Police. As a result, **a motion was made by Bill Stein, seconded by Shelley Smith, approving a hardship withdrawal equal to the amount of the applicant's mortgage arrearage; the motion was unanimously adopted.**

The Board next considered Case No. 06-44. The applicant was present. Board members debated the circumstances of how the applicant came to be behind on the mortgages for his personal residence and investment property. A motion was made by Don Keith, seconded by Shelley Smith, to approve a partial distribution equal to the amount necessary to bring the applicant current on both mortgages; the motion failed by a vote of 3-4 (Canzano, Keith and Smith in favor; De Foor, Kraus, Stein and Whelan opposed). **A motion was then made by Richard Kraus, seconded by Eugene Canzano, to approve a hardship distribution equal to the amount necessary to bring the applicant current on his primary residence; the motion was adopted by a vote of 6-1 (Canzano, De Foor, Keith, Kraus, Smith and Whelan in favor; Stein opposed).** A motion was then made by Richard Kraus, seconded by Shelley Smith, to approve an additional distribution equal to the amount necessary to bring the applicant current on his investment property; the motion failed by a vote of 2-5 (Kraus and Smith in favor; Canzano, De Foor, Keith, Stein and Whelan opposed).

#### 10. REQUESTS FOR FUTURE AGENDA ITEMS

None.

#### 11. NEXT MEETING DATE – NOVEMBER 21, 2006

#### 12. ADJOURNMENT

The meeting adjourned at 11:48 a.m.

\* Minutes prepared by staff member Steven Montagna