CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING NOVEMBER 18, 2014 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:	**Not Present:**
Eugene K. Canzano, Chairperson	Robert Schoonover
John R. Mumma, Vice-Chairperson	Tom Moutes, Second Provisional Chair
Clifford Cannon, First Provisional Chair	
Michael Amerian, Third Provisional Chair	
Ray Ciranna	
Mary Higgins	
David Luther	

Staff:

Personnel:	Steven Montagna Paul Makowski	Alejandrina Basquez
City Attorney:	Curt Kidder	

1. CALL TO ORDER

Eugene Canzano started the meeting at 9:15 a.m.

2. PUBLIC COMMENTS

A member of the public reserved comment at this time to speak when the Board addressed Item 9, related to the proposed Auto-Enrollment Program Core Provisions.

3. MINUTES – OCTOBER 2, 2014

Mr. Canzano noted corrections to typographical errors. **A motion was made by David Luther, seconded by Cliff Cannon, to approve the October 2, 2014 Special Meeting minutes, as amended; the motion was unanimously adopted.**

4. MINUTES – OCTOBER 21, 2014

A motion was made by John Mumma, seconded by Michael Amerian, to approve the October 21, 2014 Regular Meeting minutes; the motion was unanimously adopted.

5. GREAT-WEST (EMPOWER RETIREMENT) QUARTERLY REPORT

Joan Watkins, Client Relationship Director with Great-West (Empower Retirement), reviewed the Plan Overview section of the quarterly report and highlighted the status of assets, contributions, and a trend in participants putting in a large amount into the Self Directed Brokerage Option (SDBO). Mr. Mumma asked if the SDBO transfer trend could be attributed to sworn personnel. Lisa Tilley, National Accounts Director with Empower Retirement indicated that a separate report could be provided with more detail.

Ms. Watkins continued to review asset allocations and participant account balances as of the end of the quarter. Mr. Amerian asked if there was a demographic profile for participants with account balances over $500,000. Steven Montagna indicated that participant information held in the Empower Retirement recordkeeping system was separate from City payroll systems and did not contain details on job classification or employment status. He stated data would need to be compared from both sources to create a profile. Mr. Amerian indicated that knowing the profile of large account holders may assist with Plan communications. Mr. Canzano noted large account holders may be participants of the DROP program. Mr. Mumma asked if DROP accounts were included in the balance figures. Ms. Tilley responded affirmatively. Mr. Cannon asked how the City accounts compare to the County of Los Angeles. Ms. Watkins indicated that City participant account balances were higher. Mr. Canzano asked about the number of participants in comparison to the County. Ms. Tilley stated that the County has over 100,000 participants. Mr. Montagna noted a benchmarking project that was being developed by the National Association of Governmental Defined Contribution Administrators (NAGDCA) to collect data from defined contribution plans to provide open comparisons.

Ms. Tilley discussed the Administrative Overview section of the report and discussed changes in distributions and loans compared to the previous quarter. Mr. Cannon asked how many retirees have a second loan. Ms. Tilley indicated that the information collected does not provide enough detail to know that figure. She then discussed the hardship and KeyTalk figures for the quarter, concluding with the number of participants opting out of paper statements. Mr. Canzano asked about the electronic transmission of Plan education to participants. Lisa Braun-Ward of Empower Retirement stated that education was generally provided daily through KeyTalk communications, table service, and counter visits. Ms. Braun-Ward continued to discuss the local office activity section of the report and pointed out an increase in overall participant engagement, including additional presentations and table service appointments in satellite areas.

Ms. Tilley then discussed the rebranding of Great-West Financial as Empower Retirement and indicated that it was a result of a September 2014 merger, making the firm the second largest defined contribution plan provider in the nation. She indicated the new brand, Empower Retirement, would not change the City's custom brand and that more communications would be forthcoming.

6. BOARD REPORT 14-48: INVESTMENT COMMITTEE PROVIDER RECOMMENDATION FOR THE DCP SMALL-CAP FUND

Mr. Montagna reviewed the recommendations made by the Investments Committee for active value and active growth managers of the blended DCP Small-Cap Fund. He briefly explained the selection process taken by the committee, indicating the committee narrowed down their choices from a large pool of fund options that met the initial selection criteria adopted by the Board. He stated the Investment Committee then reviewed the selected finalists in finer detail, based on analysis prepared by the Plan's investment consultant, Mercer Investments Consulting, which was attached to the Board report for reference.

Mr. Mumma asked what considerations the Investment Committee took into account during their review. Mr. Montagna indicated the committee took a broad approach. Mary Higgins indicated the Committee included assessment of how different managers and funds might work together as parts of the DCP Small-Cap Fund. Mr. Canzano indicated that the matrix comparing each fund's characteristics was an essential component in narrowing the candidates and helped to show particular qualities that stood out. Mr. Amerian indicated that each member of the committee brought their own perspective and focus, with each member raising a variety of perspectives including fund management fees, revenue sharing components, fund performance, risk-adjusted return, etc. Devon Muir of Mercer Investments Consulting indicated that a significant overall factor was the focus on fund management fees. He stated the committee considered these costs for each prospective manager in relation to its long term investment performance. Mr. Canzano added that the performance analysis provided also allowed the committee to see how each firm has performing in relation to its competitors in up and down markets.

Mr. Muir then reviewed all blended scenarios of the final candidate funds as listed in the Manager Search Report. He reiterated the Investment Committee's recommendation for selection of the DFA U.S. Small Cap Value Portfolio as the new Active Value component (33%) and the Hartford Small Cap Growth HLS Fund as the new Active Growth component (33%) of the blended DCP Small-Cap Fund. He indicated the SSgA Russell Small Cap Index Fund NL Series S would retain 34% as the incumbent passive component of the fund. He further indicated that the recommended blended composition for the DCP Small-Cap Fund yielded a low fund management fee of 42 basis points. Mr. Ciranna asked about the history of the analyst teams for each firm. Mr. Muir explained the broad basket stock buying methods of DFA and their use of a team approach. He indicated that Wellington, a sub advisor for Hartford, was more of a sole portfolio manager with a strong history of dependable analysts.

A motion was made by Mr. Amerian, seconded by Mr. Ciranna, to select the DFA U.S. Small Cap Value Portfolio as the Active Value component of the DCP Small-Cap Fund; the motion was unanimously adopted.

A second motion was made by Mr. Amerian, seconded by Mr. Luther, to select the Hartford Small Cap Growth HLS Fund as the Active Growth component of the DCP Small-Cap Fund; the motion was unanimously adopted.

7. BOARD REPORT 14-49: INVESTMENT COMMITTEE PROVIDER RECOMMENDATIONS FOR DCP MID-CAP FUND

Mr. Muir reviewed the Investment Committee's recommendations for selection of the RidgeWorth Mid-Cap Value Equity Fund I as the new Active Value component (25%) and Voya Mid-Cap Opportunities Fund R6 as the new Active Growth component (25%) of the DCP Mid-Cap Fund. He indicated that the Vanguard Mid-Cap Index Institutional Plus Shares Fund would retain 50% as the incumbent passive component of the funds. He reviewed the strong long-term performance and five year track history of the recommended selections. He further illustrated that the recommended blended composition for the DCP Mid-Cap Fund provided a net management fee of 37 basis points, with a small revenue share from the RidgeWorth fund.

Mr. Mumma asked why revenue sharing occurred with certain firms and not others. Mr. Muir explained that revenue sharing was an older method of structuring fees which was often a vehicle for certain defined contribution Plan administrators to pay for record keeping services. He added that the City's Plan opts to give any revenue share dollars back to its participants, which lowers the overall net fund expense ratio.

Mr. Ciranna asked for more information on the history of the analyst teams for each firm. Mr. Muir explained that both recommended firms have strong analyst teams with lead portfolio managers who were instrumental to their processes. He stated that Ceredex (RidgeWorth) was a self-representing firm that directly purchased and had long-term team cohesion. He stated that Voya (formerly ING) also had a team with a successful long-term track record. Mr. Mumma asked if the size of each firm's portfolio was a consideration in reviewing these firms. Mr. Muir responded affirmatively.

A motion was made by Mr. Amerian, seconded by Ms. Higgins, to select the RidgeWorth Mid-Cap Value Equity Fund I as the Active Value component of the DCP Mid-Cap Fund; the motion was unanimously adopted.

A second motion was made by Mr. Amerian, seconded by Mr. Ciranna, to select the Voya Mid-Cap Opportunities Fund R6 as the Active Growth component of the DCP Mid-Cap Fund; the motion was unanimously adopted.

8. BOARD REPORT 14-50: DCP STABLE VALUE FUND REQUEST FOR PROPOSALS

Mr. Montagna reviewed staff recommendations relative to an upcoming procurement for the Plan's Stable Value Fund. He stated that the first recommendation was for the Board to approve a draft Request for Proposal (RFP). He indicated the term for the incumbent provider expires on June 30, 2015. He stated the recommended search parameters have been developed in accordance with the Plan's Investment Policy Statement, review of the prior procurement, and working with the Board's investment consultant.

He stated that the second action item involved the City's General Contracting Requirements and noted that the RFP would provide bidders an opportunity to pre-submit certain general contracting requirement documents to help meet those compliance requirements so that their service proposals could be considered. He indicated that this worked well with the FDIC RFP. He staff was further requesting Board authorization to apply for an exemption from the Business Inclusion Program, one of the City's general contracting requirements requiring that vendors engage in an outreach process to subcontractors. He stated the Plan had previously sought exemptions for this for investment management services contracts given that investment manager searches involve looking for reliability and track records with respect to investment management expertise. He stated that in the Board's recent FDIC-provider search a prior incumbent bank provider made its initial determination not to propose because it felt it would be misleading to imply subcontracting opportunities were available that were not. He indicated that along with that exemption staff was also requesting authorization to pursue or confirm exemptions from ordinances for which exclusions may exist for this type of contract, noting that several ordinances have language stating they are non-applicable to contracts that involve investment of trust monies or funds not under the control of the City. He stated that in the past some contracted investment providers have applied for and been granted exemptions, and staff's hope was to secure the exemptions up front so that they can be communicated to the provider universe at the time the RFP is issued.

Mr. Montagna indicated that the last recommended action involved an issue which arose in 2008 the last time the Plan sought stable value provider services. He stated that at that time the Plan received only one viable response, with three vendors having failed to pass the general contracting requirements. He stated that the RFP was canceled and reissued, but it did result in a proposal being submitted from the Plan's Third-Party-Administrator (TPA), Empower Retirement. He stated that since the Plan was unbundled in 1999, one of the principles that had informed the structure of the plan was a clear line between the TPA acting in its role and the Plan's investment options. He stated that staff reviewed this matter with the City Attorney at the time, and the City Attorney opined that while there was no direct conflict of interest with respect to utilizing a TPA as an investment provider, there could nevertheless be the appearance of a conflict of interest on the part of Plan participants and the Board was free to, if it chose, take a position that a TPA cannot be both a plan administrator and investment provider.

He stated staff brought this recommendation to the Board and the Board deadlocked on the recommendation, the RFP was re-issued under the same terms and conditions, and Empower Retirement chose not to bid on the subsequent RFP.

Mr. Montagna stated that given that this issue was never resolved, staff was bringing th recommendation back and its position was unchanged. He indicated that in staff's view there is significant value to Plan participants in maintaining a clear line between administrative and investment management services. He stated that it's important that participants be assured that TPA counselors are not conflicted when providing counseling about Plan investment options.

Mr. Canzano asked if the proposed exemption requests from City contracting provisions would broaden the number of responses if approved. Mr. Montagna indicated that it could have that impact, but Mr. Muir noted that the provider universe for these types of services involved a handful of firms. Mr. Amerian asked why BIP exemption requests for previous procurements were denied. Mr. Montagna indicated that the finding of the Mayor's Office was that the ordinance provided narrow grounds for exceptions. Mr. Luther confirmed this but indicated that it was unclear how those interpreting the policy under the current administration might view the matter. Mr. Canzano asked if exemptions were determined on a case-by-case basis. Mr. Montagna responded affirmatively. Mr. Luther noted, in relation to the recommended action to prohibit a TPA from serving simultaneously as a TPA and investment provider, that this was important to articulate to potential TPA providers in advance of the next procurement for those services as well.

Following this discussion, **a motion was made by Mr. Amerian, seconded by Mr. Mumma, to approve and authorize the release of the DCP Stable Value Fund investment manager Request for Proposals subject to final approval as to form and legality by the Office of the City Attorney; the motion was unanimously adopted.**

A second motion was made by Mr. Amerian, seconded by Mr. Ciranna, to authorize staff to apply for an exemption for this procurement from the Business Inclusion Program as well as apply for/confirm exemptions from other ordinances for which exclusions may exist for this type of contract; the motion was unanimously adopted.

A third motion was made by Mr. Cannon, seconded by Mr. Luther, to direct staff to return at the December 16, 2014 Board Meeting with recommended language for the Board's Governance Policies and Bylaws codifying prohibition of a Plan TPA from simultaneously serving as a Plan investment provider; the motion was unanimously adopted.

9. BOARD REPORT 14-51: AUTO-ENROLLMENT PROGRAM CORE PROVISIONS

Mr. Canzano began by asking for public comments on this item. Ramon Rubalcava, a representative of labor union SEIU local 721, stated that while SEIU was in favor of an Auto-Enrollment Program, it was concerned about the approach for implementation. He stated that the Auto-Enrollment Program should be a part of the collective bargaining process. He indicated that SEIU would like to meet and confer on all elements of the proposed program, including the amounts of contributions, and asked that the pending report be tabled and discussed with labor organizations prior to adoption.

Mr. Canzano indicated that the pending program had been developed as a pilot program with the intent to include City labor organizations in program development discussions. He stated the Board and Plan were very interested in receiving input from the City's labor organizations. Mr. Mumma stated that the pending program was created as a voluntary option for labor organizations to add through the collective bargaining process only if they wished to participate. Mr. Cannon asked when SEIU could be available to participate in a discussion. Mr. Rubalcava indicated that he could not provide a specific time period at the moment. Mr. Mumma noted that four members of the Deferred Compensation Board were representatives closely related to labor organizations, with three members being employee member elects and one member being a labor union representative.

Following this discussion, Mr. Montagna reviewed the proposed auto enrollment report and outlined the highlights of the program: the ability to proceed with the program through collective bargaining agreements despite the anti-garnishment laws in California; the overall mission of the auto enrollment program, which was to provide income security in retirement, particularly given the lower retirement benefits for Tier 2 civilian employees; and the target audience of the program, which were brand new employees eligible for one of the City's three City retirement plans. He noted the contribution patterns of current participants and explained that the proposed structure mirrors these patterns. He then outlined the recommended core provisions for the program: 1) initial contributions would be a percentage of pay, starting at 2%; 2) contributions would be 100% pre-tax; 3) contributions would increase by 0.25% for each program participant annually; 4) the participant would be able to opt-out prior to the first contribution being taken and further would be able, within 90 days after the initial contribution, to be eligible for a full withdrawal of contributions; and 5) contributions would be defaulted into the FDIC-Insured Savings Account for the first 90 days and then transferred to the Moderate Portfolio thereafter.

Mr. Montagna indicated that implementation of the pilot program under the recommended provisions would require some modifications to the City and DWP payroll systems and that initial discussion with both payroll entities indicated that the necessary modifications appeared feasible. He also added that adoption of the program would require Plan Document revisions.

Alejandrina Basquez indicated that staff had held discussions with the Police Protective League as a potential pilot group and that they would be a strong candidate for a test group since police officers have regular ongoing hiring. She added that staff had sent a communication to all of the City's labor unions informing them of the Board meeting to discuss the auto enrollment provisions inviting input, and could further arrange a meeting if the Board wished.

Mr. Cannon stated a desire to defer action on further implementation until more talks with employee labor unions had taken place. Mr. Ciranna and Ms. Higgins both concurred. Mr. Luther indicated he also agreed but that it was important that all parties understand that it was not possible to create different auto enrollment programs for different bargaining units. Mr. Ciranna asked if the Plan had communicated with the CAO's Office given that many MOUs were currently in negotiation. Ms. Basquez responded affirmatively but that a bargaining unit could add the program through a letter agreement to the MOU. Mr. Mumma noted that adopting the program as a pilot program would help to identify what works and provide an opportunity to fine-tine the program before opening it up more broadly. Mr. Amerian asked for the opinion of legal counsel. Curtis Kidder indicated that while the law was not as clear as he might like, an exception was provided for in the Labor Code from anti-garnishment laws via collective bargaining agreements.

A motion was made by Mr. Cannon, seconded by Mr. Ciranna, to table the Auto Enrollment Board Report until the next regular meeting of the Board and direct staff to reach out to each City labor organization for additional communication; the motion was unanimously adopted.

10. BOARD REPORT 14-52: STAFF REPORT

Paul Makowski reviewed the staff report covering activity through October 2014. He reviewed statistics for counter activity, accrued leave, hardships, deferrals, and Roth statistics. Mr. Montagna added that a new analyst, Matthew Vong, had been hired and would be soon joining the staff. Mr. Canzano asked about the ability to notify participants who contribute the maximum about increased limits. Mr. Montagna reviewed prior communications to Plan participants and indicated staff would review the feasibility of targeted communications.

Ms. Higgins asked if the staff report needed to be provided each month or if it may be better to be provided on a less frequent basis. Mr. Canzano indicated he liked the monthly reporting but was open to reviewing this. Mr. Montagna indicated that staff was currently looking into some changes to the staff report and could consider the frequency of reporting as well.

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

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna cited a recent City Council notification to all departments related to recommendations for the City's position on new or pending legislation. He asked for a report on legislation that may impact the Deferred Compensation Plan that might further require City Council action to provide official City support.

12. FUTURE MEETING DATES

The next Regular Meeting of the Board is set for December 16, 2014.

13. ADJOURNMENT

A motion was made by Ms. Higgins, seconded by Mr. Amerian, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:36 a.m.*

Minutes prepared by staff member Paul Makowski.