

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
SPECIAL MEETING NOVEMBER 19, 2013 - 8:00 A.M.
202 W 1st STREET, 5th FLOOR LACERS BOARDROOM

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John Mumma, Vice-Chairperson
Tom Moutes, Second Provisional Chair
Clifford Cannon
Ray Ciranna

Not Present:

Michael Amerian
Robert Schoonover
Margaret Whelan
Sangeeta Bhatia

Staff:

Personnel: Steven Montagna
Esther Chang
Paul Makowski

David Luther
Alejandrina Basquez

City Attorney: Curtis Kidder

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 8:26 a.m.

2. PUBLIC COMMENTS

No public comments were made.

3. MINUTES

A motion was made by Mr. Tom Moutes, seconded by Mr. John Mumma, to approve the September 17, 2013 Regular Meeting minutes; the motion was unanimously adopted.

4. STRATEGIC PLAN DISCUSSION

a. PLAN OVERVIEW & METRICS

Steven Montagna began the strategic plan review. He indicated that the objective of the meeting was to help refine goals and objectives for the Deferred Compensation Plan and then further identify how to measure success for each objective. He first reviewed the mission/vision, values/goals, and recent accomplishments of the Plan. He then reviewed some of the longer-term trends impacting the Plan and asked that the Board, staff, and attending audience participate in a workshop exercise by breaking up into groups and considering how these trends might impact the Plan over time. All those in attendance broke into three different groups and Mr. Montagna asked for representatives from each group to share thoughts and ideas from their group discussions.

Eugene Canzano asked about auto enrollment and the ability of Memorandum of Understanding agreements to provide authority for offering auto enrollment. Ray Ciranna echoed the question and asked if it was possible to enter into a dialogue with labor representatives on the topic. Board Counsel Curtis S. Kidder said that he would consult with tax counsel and provide analysis and can report back to the Board soon. Mr. Ciranna asked if the Board would entertain advocating legislative action to address the wage garnishment issue. Mr. Montagna stated the Board had already taken a position on this and further taken a position in support of auto enrollment generally, and that staff has been researching this issue. He indicated staff would report back on this topic at the next regular meeting.

Mr. Montagna continued the presentation and reviewed keys to success, primary objectives, and strategic initiatives portions. He continued to discuss Plan Metrics and identified that the metrics could be narrowed down into four categories: participant engagement, participant awareness, participant satisfaction, and participant outcomes. Mr. Moutes discussed participant outcomes and suggested that participant data be extracted and compared with other data sources, such as LACERS information. Mr. Montagna concluded the presentation with a discussion on measuring success and indicated that staff was proposing that this information be added to the annual report. Mr. Ciranna suggested incorporating goals into the report as well. Mr. Canzano asked when the annual report would be released. Mr. Montagna indicated it would be released during the first quarter of 2014. Mr. Ciranna stated that auto enrollment should be at the top of the list of priorities.

b. FINANCIAL WELLNESS INNOVATION

Georgette Gestely, Director of the New York City Deferred Compensation Plan, began her presentation by explaining the array of different retirement program options available to New York City employees. She briefly discussed a background on the creation of their employee IRA options which are also available to spouses of employees. She added that their Roth IRAs do not have a required minimum distribution like other IRAs. Mr. Canzano asked if IRAs in New York City are protected against legal judgments. Ms. Gestely said she would need to consult with their legal counsel to respond, but that she would research that and get back to the Board. Cliff Cannon asked how spouses contribute to the plan. Ms. Gestely said they can make personal check contributions.

Ms. Gestely began discussion of their financial planning program which she explained covers planning on an array of retirement issues and takes a holistic approach to personal finance by incorporating financial issues outside of these options. She reviewed the background purpose, and features of their program and noted that their on-site service center consists of 46 plan representatives, including those who are part of the financial wellness program. Ms. Gestely then reviewed the cost components of the program. Mr. John Mumma asked what fees were involved. Ms. Gestely said that participants were assessed flat fees of \$20 plus an additional 5 basis points. She indicated that there is no cap on basis points based on account size, but that historically the Plan had forgiven fees in the 4th quarter because they were not needed for the Plan to meet its obligations.

Mr. Montagna asked Ms. Gestely what kind of responses they received for their procurement of these services. Ms. Gestely replied that their first release resulted in approximately six respondents, but speculated that there are probably many more firms now who would respond. Mr. Canzano asked if there were any other advantages to the Roth IRA other than avoiding the minimum distribution requirement.

Mr. Montagna asked if there were any implementation issues. Ms. Gestely explained that there is a rule that prevents licensed individuals employed by different entities from working in the same space as the financial counselors and they had to overcome that placement issue. Mr. Mumma asked how long New York City had Certified Financial Planners. Ms. Gestely said since 2006. Mr. Ciranna asked if the New York City Deferred Compensation Plan carried fiduciary liability insurance. Ms. Gestely said the Board is covered by the City but does not have a separate policy.

Mr. Montagna asked if the Certified Financial Planners give investment advice. Ms. Gestely said that the New York City Deferred Compensation Plan Board would not allow the planners to give advice. Mr. Cannon asked if the Certified Financial Planners would direct participants to invest in certain funds. Ms. Gestely said no. She said their Certified Financial Planners would discuss good practices with the participant and identify the portfolio options. Alejandra Basquez asked if there were other areas the financial planners dealt with. Ms. Gestely said that the financial planners would go through every area of the participant's financial picture and brought up an example about buying long term care insurance. Ms. Gestely concluded her presentation with an overview of the forms and fliers included in the packet.

c. PLAN RESOURCES AND BUDGET

Mr. Montagna began discussion of the plan budget with a review of the flow of funds and identified that in accordance with City policy the Plan utilizes both a reserve fund with Great-West, which pays the bulk of Plan expenses, and a smaller City trust fund, for some residual expenses. Mr. Ciranna asked why the Plan uses the City fund. Mr. Montagna stated that the fund is a holdover from a time when the City's internal administrative expenses were funded through a contribution fee, and that the fund was now used primarily for travel expenses, equipment, and other miscellaneous expenditures. He indicated that of these, travel was the primary item because it had the greatest activity, and that monies would be transferred from the primary Great-West fund to the smaller City fund in advance of a pending travel expenditure. Mr. Ciranna asked if the Board should consider direct payment from the Great-West reserve fund. Mr. Canzano noted problems with the City's current travel policies and procedures which end up costing the traveler and City more. He also stated that he would be interested in looking at alternative ways to improve the process and save unnecessary travel costs. Mr. Moutes stated that LACERS has met with the Office of the Controller and is working, in conjunction with the Department of Fire and Police Pensions, on a proposal to allow their departments to process their own travel. Mr. Canzano asked if the Deferred Compensation Plan could be included in this. Ms. Alex Basquez stated that there would be two main issues of concern that would need to be addressed. She said the first concern would be the role of the Mayor's Office in providing approval for travel. She said the second concern was whether the City Controller/Treasury would still be responsible for issuing checks. Mr. Montagna indicated a threshold issue was whether Great-West was able to process travel reimbursements. Ms. Lisa Tilly stated that she would research this and respond.

Mr. Montagna discussed the revenues and expenditures information on the presentation slides. Mr. Mumma asked about the cost of elections. Mr. Montagna explained that the costs of elections fluctuate from year to year. Mr. Montagna next reviewed surplus target and reserve fund variables. Mr. Mumma asked for an explanation of CAP rates. David Luther stated that the CAP rates are a result of a formula. He stated that from year to year the rates may change in a positive or negative manner based on fluctuations in the department's underlying costs for non-salary items. He indicated that certain one-time factors had caused a spike in the Personnel Department's current reimbursement rate but that he was confident that rate would come down in future years..

Mr. Montagna indicated that staff was proposing that the enrollment increase assumption be reduced from 2% to 1%, given that enrollment had been essentially flat over the past seven years. Board members indicated their support of this.

Mr. Montagna continued with his review of key variables, next discussing plan asset growth. He indicated that plan asset growth had been higher than the current assumption in recent time periods, and that staff was recommending using a ten-year average growth rate of 6.5% because it was the most conservative number of the time periods being considered. Mr. Canzano indicated his support for using that assumption.

Mr. Montagna next reviewed the assumption for the Stable Value Fund rate of return, which staff was proposing be reduced from 3% to 2.75%. He indicated that both Mercer and Galliard had been asked to provide a long-term assumption and had come back with similar numbers in the range of 3.50%/3.65%, but staff advised using Galliard's 5-year projection of 2.75% since this was a more conservative assumption. Board members indicated their agreement with this.

Mr. Montagna indicated that based on its findings of the result of incorporating these assumptions into the long-range forecast, there was no basis for recommending a change to the fee structure at the present time. He indicated that the projected long-term surplus was projected to dip below the target amount of approximately \$1.5 million for a number of years but then at the end of the ten-year period begin trending back up again. Mr. Ciranna asked how many individuals are at the fee cap. Ms. Tilly replied that approximately 25% of participants meet or exceed the fee cap balance. Mr. Montagna concluded by indicating that going forward staff would include ten-year projections in quarterly budget reconciliations, and that the long-term assumptions would include all of the modified variables as discussed at the meeting.

d. PLAN ADMINISTRATION REVIEW: TECHNOLOGY AND SERVICE ENHANCEMENTS

Ms. Lisa Tilly began her discussion regarding upcoming technology and service enhancements that Great-West has been developing for its clients. Ms. Tilly indicated that enhancements are typically phased in with smaller plans to work through any problems or issues before they are launched into larger plans. Ms. Tilly first discussed an improvement Great-West has been developing with respect to distribution forms. She indicated that the problem with the current distribution form is that it's lengthy and confusing because of all the different options available to participants, and that the process typically involves three phone calls or interactions between the participant and the Great-West service center. She indicated that rather than attempt to modify the form Great-West determined that better outcomes could be produced by having participants contact the Plan service center and begin the distribution process with assistance so that the service representative could then help the participant complete the form and then send the document to the participant for final approval.

Mr. Cannon asked if paper forms would continue to be mailed and made available to retirees. Ms. Tilly said for now, yes, but added that the long term goal was to move more toward electronic media. Mr. Canzano asked if the pre-filled forms would contain account information. Ms. Tilly indicated that the social security number would not appear in the form, otherwise everything else known and related – to the extent possible - would be pre-filled.

Ms. Tilly next indicated that Great-West was developing a mobile web application. She indicated that initially the app would have inquiry only functionality, but that transaction capability was something that would likely appear in a future version. She stated that the City's Plan would be able to customize some of the features of the app with its logo and announcements.

Ms. Tilly next reviewed Google Web analytic features that would be made available to the Plan, and that these were intended to help users of the plan sponsor website. These analytics would allow City staff to monitor data such as number of visitors to a web page, most popular pages, and time visitors spent on the site.

Ms. Tilly next discussed electronic distribution of newsletters, indicating that Great-West was moving in this direction due to the fact that it was possible now to customize and develop communications based on participant interest. She indicated that another feature being developed involved alternative authentication which would provide a faster, easier way for participants to retrieve log-in information for their web accounts. She stated that Plan would soon have the ability to provide email

addresses to Great-West and opt their participants into electronic document delivery. .

Mr. Cannon asked if the newsletters could be provided historically. Ms. Tilley replied that the newsletters were already available for all participants after logging in to their accounts. Mr. Canzano stated that he particularly liked the app option, noting that it is difficult for people who work in the field or are away from a regular PC to conduct transactions, and hoped transactional capability would be added soon. Ms. Tilly stated that phase two would incorporate transaction capability.

5. BOARD REPORT 13-36: CONTRACT EXTENSIONS

Mr. Montagna indicated that that staff was recommending extending contracts with two providers , Galliard Capital Management and State Street Global Advisors (SSgA). He indicated that with respect to SSgA, a recordkeeping error on the contract had resulted in the termination date being recorded as a year later than the actual termination date, which was 12/31/13. With respect to the contract with Galliard, he indicated that although there was sufficient time to conduct the procurement in advance of its termination date of 06/30/14, given recent review by the Investments Committee of potential changes to the Plan's fund search process, staff was recommending that this contract be extended as well to provide more time to refine the Plan's long-term schedule for investment manager searches.

He next discussed a recommendation to approve a draft Request for Proposal for the Plan's FDIC-Insured savings option providers. He indicated that the recommendation was to approve the RFP but that some modifications as to form might result from review by Board Counsel and the Personnel Department's procurements staff. .

Mr. Ciranna asked what would happen if the SSgA contract extension was not approved. Mr. Montagna indicated that there were options for continuing services past the expiration date, and in the unlikely event that this occurred other options may include transferring the account to a mutual fund invested in the equivalent index. Mr. Ciranna offered his assistance if that was needed. .

Mr. Canzano asked how responsive the banks would be to rate increases if interest rates began to rise. Mr. Montagna stated that each bank's rate calculation methodology is different, and Mr. Muir added that there is a benchmark rate that is instantaneously reactive to changes in rates.

A motion was made by Mr. Ciranna, seconded by Mr. Mumma, to approve the draft report to City Council recommending contract extensions for State Street Global Advisors and Galliard Capital Management through

June 30, 2015; the motion was unanimously adopted. A second motion was made by Mr. Ciranna, seconded by Mr. Moutes, to authorize, subject to City Council approval, the Board Chairperson to execute the necessary contract amendments; the motion was unanimously adopted. A third motion was made by Mr. Moutes, seconded by Mr. Cannon, to approve the draft Request for Proposal for providers of the Deferred Compensation Plan Bank Deposit Savings Account investment option; the motion was unanimously adopted.

6. HARDSHIP APPLICATION 13-01

Esther Chang reviewed the hardship application in Case No. 13-01. She indicated that Great West only approves hardship applications for loss of income that fall under two categories: illness or accident. Ms. Chang stated that the present case involved a loss of income due to being placed off duty without pay pending resolution of a discipline case, and that the Board had prior precedent for having approved cases in similar circumstances. Mr. Kidder indicated that the Plan Document permits hardship withdrawals for severe financial hardship, loss of participant's property, and unforeseen circumstances.

Mr. Moutes asked if the Board approved the hardship, could that action put the Plan at any risk. Mr. Kidder stated that the IRS is looking to ensure that the Board follows the Plan Document and that the Board has engaged in discussion on the action. He added that the Plan document uses terms such as "unforeseen" "emergency" and "hardship" but does not necessarily define the application of those terms and said that it is the Board's obligation to perform a fact-finding mission.

Mr. Canzano said that he was comfortable with the staff recommendation and indicated that he recalled approvals based on similar circumstances in the past. Mr. Ciranna asked if staff had seen foreclosure documents. Ms. Chang said that staff had reviewed documentation including the foreclosure documents and noted that Great West had previously approved distribution based on those notices, but that in this situation the applicant was requesting the distribution based on his income loss, which was greater than the value of those prior approvals. Mr. Moutes stated that he had reservations about whether this event could be considered unforeseen to the applicant. Mr. Canzano indicated that in this case a final disposition as to whether the charges were sustained had not been made, and so by approving the application the Board was essentially making a presumption of innocence because no alternative conclusion had yet been reached. Mr. Ciranna asked what would happen if the IRS reviewed the Board's decision and disagreed with the action that the Board took. Mr. Montagna stated that the IRS is looking to ensure that plan sponsors engage in a thoughtful deliberation, and that even in the worst case if they determined that the conclusion reached was not consistent with the rules, Section 457 plan sponsors

have a six-month correction period to modify their rules, without penalties to the Plan. Mr. Mumma stated that he did not personally know the officer who submitted the hardship application, nor did he know anything about the situation before it was presented to the Board. Mr. Ciranna asked how taxes are handled with hardships. Mr. Montagna said that hardships are distributions and are taxed as such.

A motion was made by Mr. Mumma, seconded by Mr. Cannon, to approve partial withdrawal of \$29,443 (net) in Hardship Application Case No. 13-01; the motion was unanimously adopted.

7. REQUESTS FOR FUTURE AGENDA ITEMS

A request was made by Mr. Canzano for a report back on potential alternative travel payment and process changes. Mr. Montagna stated that staff would report back on the issue.

8. FUTURE MEETING DATES

December 17, 2013.

9. ADJOURNMENT

The meeting adjourned at 12:55p.m.

Minutes prepared by staff member Paul Makowski.