

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING DECEMBER 17, 2013 - 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  
Michael Amerian  
Robert Schoonover

**Not Present:**

Sangeeta Bhatia, Third Provisional Chair  
Ray Ciranna  
Margaret Whelan

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 9:06 a.m.

2. PUBLIC COMMENTS

No public comments were made.

3. MINUTES

Tom Moutes noted some minor typographical errors in the minutes, which he indicated he could provide to staff. **A motion was made by Mr. Moutes, seconded by John Mumma, to approve the November 19, 2013 Special Meeting minutes as amended; the motion was unanimously adopted.**

#### 4. GREAT-WEST QUARTERLY PLAN REVIEW

Lisa Tilley, National Accounts Director with Great-West Retirement Services, introduced Joan Watkins as the new Client Director for the City of Los Angeles' Deferred Compensation Plan and said that Ms. Watkins would be discussing the Plan overview portion of the quarterly reviews from now on. Ms. Watkins first discussed plan assets. Mr. Mumma asked why there was such a large fluctuation in interest/dividends. Ms. Tilley responded that the fluctuation could be a result of the time period when dividends were paid out, but she stated that she would need to confirm that as the reason. Ms. Watkins continued with reviewing the information in the report on the quarter end and historical assets/participants, net cash flow, transfer activity, and asset allocation. Mr. Canzano commented that seeing the five portfolios in one column on the asset allocations by class page gave a better view of how participants are investing. Ms. Watkins responded by indicating that participants were increasing their use of the portfolio options.

Ms. Watkins continued to discuss the material presented on contribution allocation by asset class and the average account balance. She noted that the average account balances in the plan were better than the industry average. She drew attention to the majority of account balances being between \$200,000 and \$400,000 and that there were now 62 participants who have over a million dollars. Ms. Tilley added that the overall average account balance is almost \$100,000.

Ms. Tilley began discussion of the Administrative Overview section of the quarterly report. She discussed the content on the Distribution by Dollar and Distribution Detail pages and made special note that the dollar amount of death claims processed this quarter was quite high, but is expected to return to a closer-to-average figure soon. Mr. Canzano asked what the retirement category number was composed of as it appears in each of the full, partial, and periodic details. Ms. Tilley clarified that retirement is a box option on the distributions form that represents employees who retired from City service and is distinguished from those who terminated but did not retire.

Mr. Canzano asked if it was known whether those in the retirement category were using their accounts to supplement their pension income. Steven Montagna indicated this information could be seen by looking at those receiving periodic payments. Mr. Mumma asked if someone can separate from service and still take a periodic payment. Ms. Tilley responded affirmatively. Mr. Mumma then asked for confirmation that there were none taken in this quarter. Ms. Tilley responded affirmatively. Cliff Cannon asked what constituted the line titled external transfers. Ms. Tilley stated that normally, external transfers are transfers to the LA County system, however since the figure in this report is so small, she would have to look into the records and see what constituted this figure. Ms. Tilley continued to discuss the remainder of the Administrative Overview section, which included rollovers, loans, hardships, phone/internet and online statement figures and statistics.

Gary Robison of Great-West Retirement Services reviewed the Local Office Activity

portion of the quarterly report. He began by discussing the figures of total participant contacts, number and type of group meetings, and individual counseling sessions. He continued with a discussion of the figures of the local office calls. Mr. Mumma asked why the Asset Distribution in the appendix, as well as in other portions of the report, combined the figures for Small and Mid Cap. Ms. Tilley indicated she would research it. Mr. Montagna asked if the Small and Mid Cap figures could be broken out. Ms. Tilley indicated that they probably could be.

#### 5. BOARD REPORT 13-37: DEFERRED COMPENSATION PLAN INVESTMENT MANAGER FUND SEARCHES

Mr. Montagna indicated that this report included the findings and recommendations of the Investments Committee. He noted that there was a recommendation to move forward with a mutual fund only search process based on improved speed of responsiveness and cost advantages. He indicated the ostensible argument for conducting an institutional manager search, as opposed to a mutual fund only search, is that institutional managers often provide lower managing costs. However, he noted that in the Deferred Compensation Plan primary asset classes are broken out into sub groups, resulting in relatively small asset pools which may not realize cost savings from an institutional manager. He said the only exception is the Large Cap fund, but even in that case the current product is a mutual fund with institutional pricing. He said that given these factors, the report recommended developing a mutual fund only search process.

He said that the process would entail first having the consultant coming to the Board with recommendations about the search process and criteria; the Board then adopting a set of search criteria; and the consultant then commencing research and identifying firms that meet the criteria. The consultant would then present findings either directly to the Board or to the Investments Committee. He stated the Board would ultimately make the final selection. He added that adding this process for a mutual fund only search would not prevent the Board from doing an institutional manager search, and for each search the Board would initially reach a finding as to whether a mutual fund or institutional fund search was in the best interest of Plan participants.

Devon Muir of Mercer Investment Consulting added that when the investment menu redesign process started Mercer had anticipated that there was a possibility of procuring high quality managers from the institutional arena who had a mutual fund that had closed; however, given the final menu design and looking at other factors such as the complexity of the procurement and contracting process, it appears unlikely that institutional searches would produce better outcomes in many of the Board searches.

Mr. Canzano asked about relationships with firms for multiple products, indicating that some of the risk based funds were still intending to have active management components, but not all. Mr. Muir indicated that this was possible. Mr. Canzano

indicated his support of the proposed changes stating that a mutual funds only manager search is just adding to the Board's options.

**A motion was made by Mr. Mumma, seconded by Mr. Moutes, to approve the recommendation of the Investments Committee to consider establishing an option for filling investment manager mandates, where the Board deems appropriate, through a mutual fund only search process; the motion was unanimously adopted. A second motion was made by Mr. Mumma, seconded by Mr. Moutes, directing staff to return to the Board with draft changes to the Plan's Investment Policy Statement incorporating this search option and specific recommendations for moving forward with pending investment fund searches; the motion was unanimously adopted.**

## 6. BOARD REPORT 13-38: AUTOMATIC ENROLLMENT PROGRAM

Mr. Montagna stated that this report was generated in response to action taken at the November Board meeting relative to the concept of developing an auto enrollment program. He began with a discussion of the Pension Protection Act which was adopted in 2006. He said that this Act provided a safe harbor for auto enrollment programs but did not require state or municipal entities to make an exception to wage withholding restrictions. He indicated that California wage withholding rules are contained within the California Labor Code. He said that first, it was not clear that the Labor Code applies to a Charter City such as the City of Los Angeles, but even if that was the case there appears to be an exception allowing for retirement deductions from employee wages if this is provided for in a collective bargaining agreement.

Curtis Kidder, Board counsel, stated that he reviewed Section 224 of the Labor code which provides three (3) exceptions to the wage withholding restrictions set forth in Section 221. He noted that the third exception references pension plan contributions, and, although it's not clear if the term "pension plan" includes a deferred compensation plan, after consulting with the Board's outside tax counsel and reviewing a California Attorney General opinion, he concluded that the term "pension plan" is broad enough to include a deferred compensation plan. Mr. Kidder also stated that a recent Supreme Court ruling in the City of Vista case raised the issue of whether wage provisions of the Labor Code apply to charter cities. That case provides that State prevailing wage law does not apply to charter cities. He indicated, however, that there is no case law or other precedent for the use of auto enrollment in California, and it would be prudent to use the pension plan exception for automatic enrollment. Robert Schoonover commented that private employers are already providing automatic enrollment and asked isn't that precedent for the Plan to do it. Mr. Kidder stated that those plans are covered by ERISA and that as far as we know there are no governmental employers in California doing automatic enrollment.

Mr. Canzano asked how the auto enrollment program would be provided if some employee organizations agreed to the provisions and some did not. Mr. Montagna

replied that the Board would create a turn-key program which would apply only to participating bargaining units. Alex Basquez added that the auto enrollment implementation would likely start with a smaller pilot group. Mr. Canzano asked if employees would still be able to enroll if their collective bargaining unit did not adopt the auto enrollment feature. Ms. Basquez said that employees will always have the option to enroll on their own as individuals. She also said that employees enrolled via auto enrollment will also always have the option to opt out if they desire. Mr. Moutes asked if someone started in a MOU that did not have auto enrollment and then transferred into a MOU that did have the program, would the transfer trigger enrollment for the employee. Ms. Basquez said the program right now is focused just on new hires, but she added that those issues and questions would need to be worked out. Mr. Montagna added that other issues that need to be resolved include initial contribution amount auto escalation and default, and investment.

**A motion was made by Michael Amerian, seconded by Mr. Mumma, to direct the Plan Governance Committee to develop recommendations for creating the authority for an Auto Enrollment option within the City's Plan; the motion was unanimously adopted. A second motion was made by Mr. Amerian, seconded by Mr. Mumma, to direct staff to draft and issue correspondence to come from the Board Chairperson to the City Administrative Officer and employee labor organizations advising them of the process of developing an auto enrollment option; the motion was unanimously adopted.**

#### 7. BOARD REPORT 13-39: PROPOSED TRAINING EVENT

Mr. Montagna briefly reviewed the staff proposal for a tax regulatory training for the January 21, 2014 Board meeting. **A motion was made by Mr. Moutes, seconded by Mr. Mumma, to approve the proposed tax regulatory training for the January 21, 2014 Board Meeting; the motion was unanimously adopted.**

#### 8. BOARD REPORT 13-40: QUARTERLY BUDGET REVIEW AND REIMBURSEMENTS

Paul Makowski reviewed the report for staff reimbursements and noted that the total proposed reimbursement amount of \$146,149.49 for Personnel staff and \$13,466.09 for City Attorney staff includes use of the new draft 35 CAP rates and new assumptions factors. Mr. Montagna indicated that the Board adopted revisions to key budget variables at its November 2013 meeting. He stated these new assumptions were incorporated into the extended year projections for the reserve account surplus, which had been increased from five years to ten years. Mr. Mumma asked if the Quarter Ending Administrative and Operating Expenses report in Attachment 1 could have a reference to the prior quarter figures for comparison in future reports. Mr. Montagna stated that staff would make the addition.

**A motion was made by Mr. Mumma, seconded by Mr. Amerian, to receive and file the following status report on Plan budget accounts for the quarter ending 6/30/13; the motion was unanimously adopted. A second motion was made by Mr. Mumma, seconded by Mr. Schoonover, to approve reimbursement from the Deferred Compensation Plan Reserve Fund account to the Personnel Department in the amount of \$146,149.49 and City Attorney in the amount of \$13,466.09; the motion was unanimously adopted.**

#### 9. BOARD REPORT 13-41: COMMUNICATIONS REVIEW

Mr. Makowski presented staff's communications update and made note of the Retirement Calculator and National Save for Retirement communication pieces as well as upcoming projects including the 2013 annual report and a social media report. **A motion was made by Mr. Mumma, seconded by Mr. Amerian, to receive and file the quarterly report; the motion was unanimously adopted**

#### 10. BOARD REPORT 13-42: CONTRACT MONITORING REVIEW

Esther Chang presented staff's report on Plan contracts. She noted that the Request for Proposals (RFP) for the FDIC Savings Account was expected to be released at the end of the month. She added that the RFPs for the Stable Value Fund and Fund Custodian Services would be worked on after staff implements previously discussed changes to the Board's fund search process.

**A motion was made by Mr. Amerian, seconded by Mr. Schoonover, to receive and file the quarterly contract monitoring review report; the motion was unanimously adopted.**

#### 11. BOARD REPORT 13-43: STAFF REPORT

Ms. Chang discussed activity for the month of November 2013 and reviewed counter, accrued leave, hardship, loan, and Roth statistics. Mr. Canzano asked about Roth transactions, inquiring if there was any information whether participants go "all-in" for one or the other of the two savings options or if there was a split between the two options. Ms. Tilley said that it seemed that people tend to go "all-in" more on the traditional option, but she said she would need to confirm that. John Borne of Great-West stated that he saw a statistic that Roth participation across the country was at about 7%. Mr. Canzano commented that maximum contributors tend to be all or nothing, but he added that he would like to see who is embracing the options. Mr. Montagna said that new Roth growth could be from new employees or could be from those nearer to retirement and focused on tax implications of post-retirement income. Ms. Chang continued with the staff report review and indicated that two Board seats were up for election in 2014 and that the election would take place May 16, 2014, with

nominating petitions available on March 21, 2014 and due by April 4, 2014. Mr. Montagna added that staff would provide election update status reports to the Board.

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

#### 12. REQUESTS FOR FUTURE AGENGA ITEMS

No requests were made.

#### 13. FUTURE MEETING DATES

The next Regular Meeting is set for January 21, 2014.

#### 14. ADJOURNMENT

**A motion was made by Mr. Cannon, seconded by Mr. Amerian, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:15 a.m.***

*Minutes prepared by staff member Paul Makowski.*