CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING DECEMBER 18, 2012 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:	**Not Present:**
Eugene K. Canzano, Chairperson	Sangeeta Bhatia, Third Provisional Chair
John R. Mumma, Vice-Chairperson	Robert Schoonover
Clifford Cannon, First Provisional Chair	
Tom Moutes, Second Provisional Chair	
Michael Amerian	
William Raggio	
Margaret Whelan	

Staff:

Personnel:	Steven Montagna	Alejandrina Basquez
	Natasha Gameroz	David Luther
	Esther Chang	
City Attorney:	Curtis Kidder	

1. CALL TO ORDER

The meeting was called to order at 9:07 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Mr. Mumma, seconded by Mr. Cannon, to approve the November 20, 2012 minutes; the motion was unanimously adopted.

Mr. Amerian arrived at 9:10 a.m. and did not vote on this item.

4. INVESTMENT PERFORMANCE REVIEW & INVESTMENT PROVIDER PRESENTATIONS

Mr. Montagna introduced Susie Ardeshir of Mercer Investment Consulting, who was substituting for the Plan's regular consultant, Devon Muir. Mr. Montagna stated that staff had invited Bank of the West, Bank of America, and City National Bank to speak before the Board to discuss savings interest rates and how they were derived. He indicated the banks were the underlying depository institutions for the Plan's FDIC-Insured Savings Account option.

Mr. Lou Mastro, of Bank of America, initiated the discussion by stating interest rates would likely stay low over the next few years. He stated that the Federal Reserve Chairman, a week prior, had indicated interest rates would not increase until such time that unemployment was at 6.5% or lower; he stated unemployment currently stood at 7.7%. He stated the U.S. was in a better position than China or Europe, as the U.S. stood at about 2% GDP, possibly increasing to 2.5% in the near future. He indicated that if Washington could find a solution to fiscal issues soon the unemployment rate may come down. He indicated a short-term fix was expected at the start of the year, with a more comprehensive fix negotiated during the year. He stated that his chief economist had indicated that in 2018, it was anticipated that the U.S. would start producing more oil than Saudi Arabia. He indicated a large number of jobs should be produced domestically as a result.

Mr. Don Riechel, of City National Bank, stated that City National was a community bank and did not have an internal economic department. He stated that outside sources were relied upon for economic review, and his role was to assess potential impacts to interest rates. He stated agreement with Mr. Mastro on the market view that interest rates would remain low. He indicated City National Bank's area of focus was California, though they remained attentive to national issues, and that while California's economy continues to lag behind the national recovery, it was poised for more growth. He stated there were also positive developments in the housing industry.

Mr. Amerian asked about the recovery of the housing market and the availability of inventory offered by the banks. Mr. Mastro stated he was seeing a decrease in credit losses and the number of loans not being repaid. He indicated that the meltdown process began in 2006, and that he does not foresee an exact date as to when levels may return pre-2006, but the market was getting closer to it. Mr. Riechel stated that City National Bank was a high-end residential mortgage lender. He indicated that City National had not had a foreclosure prior to the crisis, and a handful since then. He stated his agreement with Mr. Mastro and indicated that the market was returning to a more "normal" level. He stated Florida was starting to resolve foreclosures in a timelier manner, which was a constructive development as it was a particularly hard hit state.

Ms. Ardeshir asked if the housing market could return to pre-2006 levels, in terms of lending standards and housing numbers. Mr. Mastro said that he personally did not see a return to the time when the economy was driven by real-estate. He indicated that while rates were currently very low, those rates would inevitably increase, which may create a headwind against increases in values. He stated that possibly in 2016-2017 pricing may return to pre-2006 levels. Mr. Riechel stated agreement and that prices may possibly return to 2002-2003 levels.

Mr. Montagna asked each bank to provide an overview of its operations. Mr. Mastro indicated Bank of America essentially has three types of customers: consumers, companies, and institutional investors. He stated the Deferred Compensation Plan fell into the corporate category. He stated Bank of America was very well-capitalized with a high capital ratio, which indicated the ability of a bank to withstand future losses. He indicated Bank of America participated in rigorous stress tests in February and passed, and since then has built capital ratios even higher.

Mr. Riechel indicated City National has been expanding with a rapid surge in deposits. He indicated City National has, as a result, increased its investment portfolio significantly to approximately $9 billion. He indicated the bank maintained a conservative risk management culture, and was invested mostly in U.S. government or fixed options without international exposure. He stated that for 19 years City National has not had a negative quarterly performance. He indicated the bank was not large enough to qualify for stress tests, but performs internal tests that are fairly robust. He stated that while capital ratios were not as high as bank of America, City National Bank's risk profile was lower. He also stated that the bank has emerged from the Great Recession better capitalized, and had just issued its first preferred stock in November 2012.

Mr. Dennis Blair, of Bank of the West, indicated that Bank of the West is a wholly owned subsidiary of BNP Paribas, headquartered in Paris. He indicated the bank was involved in wealth management and government banking, and had presence in 19 states. He stated that Bank of the West had not been hit as hard by the financial crisis as it had remained credit sensitive. He indicated they had not participated in any stress tests, but the bank remained highly capitalized.

Mr. Montagna asked the banks to discuss how account interest rates were determined. Ms. Patty Ramirez, of Bank of America, indicated the method was to take the prior month's Fed Fund Effective rate, which is public, add 10 basis points, and subtract 13 basis points for FDIC fees. She stated that Bank of America provides the rate to Great-West on the third to last business day of the month. She stated the Bank of America account was a public funds interest checking account, interest-bearing with unlimited transactions allowed. Mr. Mumma asked if there was a floor on the rate. Ms. Ramirez indicated there was not.

Mr. Riechel indicated the deposit pricing process for City National Bank was determined by initially reviewing their holdings and deposits. He indicated that the City National method for the Plan was currently 50 basis points lower than 3-month LIBOR, subject to a floor rate of 0.15%.

Ms. Caren Galloway stated initial methodology for Bank of the West was similar to the other banks. She indicated that an interest-bearing checking account was set up and the base rate was determined to be the 91-day T-Bill rate. She stated that Bank of the West had gathered together an internal committee which had originally offered an introductory rate of 1% until the market showed improvement. She stated staff had not anticipated that the pressure on interest rates would continue to remain strong, keeping interest rates low. She indicated that the committee, upon review of rates and collateral, brought the rate down to 75 basis points.

Mr. Cannon noted Bank of America's mention that Section 343 of the Dodd-Frank Wall Street Reform was expiring at end of the year; he asked what the impact might be. Ms. Ramirez indicated there would be no impact. She stated that it meant banks would be reverting to the $250,000 FDIC insurance limit, after which funds above that limit would be fully collateralized by the bank in accordance with California Code requirements. Mr. Cannon asked whether that was true for the other banks. Mr. Riechel and Ms. Galloway confirmed for City National and Bank of the West.

Ms. Ardeshir discussed the Mercer report for the third quarter of 2012. She stated that year-to-date returns ending third quarter were looking similar to current returns; she indicated that for the year, returns should be approximately 15% for equity markets and 4% for fixed markets. She stated that continued market volatility should be expected until there were clear, long-term fiscal solutions. She indicated there was no action being recommended on any of the funds, but noted a few items.

She indicated that the international equity index fund was showing a higher net investment expense than what was available in the market, and this would be reviewed during the upcoming procurement process. She stated there was also a change to how the investment management fee was indicated for the Plan's Stable Value Fund. She stated that with recent fee disclosures, there has been more transparency in what is disclosed regarding the stable value investment management fee. She indicated there was no impact to the amount participants are charged. She indicated the investment management fee now also includes the annual operating fee, which had previously been embedded in the cost of the crediting rate. She indicated the fee was changed from 9 basis points to 28 basis points. She indicated the 28 basis points were made up of 6 basis points for investment management, 3 basis points for sub-advisory management, about 14 basis points in wrap fees, and 6 basis points for fees related to custody, accounting, and communications, etc.

The Board took a recess at 10:16 a.m. and reconvened at 10:25 a.m.

5. BOARD REPORT 12-58: RETIREMENT INCOME PROJECTION CALCULATOR

Mr. Montagna stated staff had been working on the development of a web calculator that would show Plan participants their total potential retirement income replacement percentage. He stated the calculator would illustrate a participant's anticipated retirement income from their defined benefit plan, Deferred Compensation account, and any additional income. He indicated the objective for the calculator was to provide the participant with a simple, user-friendly way of what their retirement income would be relative to the income they are actually living off of. He stated many employees underestimate what they will receive in retirement relative to what they are living off of, and also do not account for the fact that they are not living of their nominal salary since pension and deferred compensation contributions are no longer paid in retirement. He stated the calculator could change how participants view their Deferred Compensation accounts, with significant implications regarding how much the participant saves, whether they save pre-tax or post-tax, and how much risk they feel is required to meet their savings objective.

Ms. Chang and Ms. Gameroz reviewed the proposed calculator design and layout, walking Board members through what the participant would experience as they navigated the web page. Mr. Mumma asked if any of the retirement systems have calculators that factor in outside assets. Ms. Chang indicated other retirement systems had calculators but did not include outside assets.

Ms. Whelan asked whether the data to be entered in the field asking for the employee’s years of service would be derived from the respective retirement system or if it was based on the participant’s knowledge. Ms. Whelan expressed a concern with accuracy for individuals who might have a mix of part-time or half-time service or leaves of absences. Mr. Mumma also stated there were employees that may have time with two retirement systems; he indicated a sworn officer may have been part of Fire and Police Pensions (LAFPP) only to later become a civilian member of the Los Angeles City Employees’ Retirement System (LACERS). Ms. Gameroz indicated the years of service field would be based on the participant’s knowledge, as the objective was to keep the calculator simple and minimize the number of sites or sources the participant would have to go through to complete the questions. Mr. Moutes indicated an employee can go to the LACERS online portal and look up their service credit, along with their annual statements. Ms. Gameroz indicated a note could be added to refer participants to the retirement plan website if they needed assistance.

Mr. Canzano suggested asking for a birthdate rather than the participant submitting their age. Mr. Mumma asked that references to “Pensions” be changed to “LAFPP,” as it is better known to its members.

Ms. Whelan asked if or how the calculator factors in salary increases. Ms. Gameroz stated the calculator defaults to an annual salary increase of 3%. Mr. Montagna indicated participants will also be able to change this percentage. Mr. Canzano asked how the calculator differentiates between those contributing 25 as opposed to 26 pay periods annually. Mr. Montagna indicated that would be built into the calculator. Mr. Canzano indicated participants may also be used to an extended period of overtime pay; he suggested a possible note to indicate that the pension benefit is calculated by base pay. Mr. Mumma stated that sworn employees receive bonuses on their base pay, but if there was confusion, that participants could contact LAFPP for their actual pensionable pay. Mr. Canzano stated DWP employees can log in and see what their monthly base rate is with add-ons via the EIS system. Mr. Montagna indicated staff would consider these points as the calculator continues to be developed.

Mr. Mumma stated there were also requirements for employees to have worked a certain number of consecutive months to receive their full defined benefit. He also indicated that if sworn members have opted to pay for retiree health, they are contributing to their pension at 11% rather than the 9% that is defaulted in the draft. He indicated that all Tier 6 members contribute at 11%. He indicated notes could be added in to reflect these points.

Mr. Canzano asked what assistance can be given to participants to better determine their life expectancy in order to figure out how long their retirement income should last. Mr. Montagna indicated that a small adjustment to the distribution years does not significantly affect the retirement income replacement percentage, unless the participant was looking 10 years in retirement versus 30 years. He stated this calculator was mainly to be used as an illustration of what retirement could look like for a participant.

Ms. Ardeshir indicated the Deferred Compensation Plan was ahead of its time as this type of tool was just beginning to be more heavily considered in the private sector. She indicated there may soon be proposed legislation to require recordkeepers to provide this type of information, especially given that the 401(k) is the primary retirement vehicle as private sector pension plans may soon be nonexistent.

Mr. Mumma asked whether there was a way that participants could back out amounts or percentages that would be due to an ex-spouse. He also asked if there was a way to account for participants who did not request distributions until later retirement. Mr. Montagna indicated staff would discuss how these items could be incorporated.

Mr. Cannon asked how cost of living increases were factored in after retirement during the draw-down phase. Mr. Montagna stated the pension benefit should keep pace with cost of living adjustments and inflation. He indicated this could also be accomplished through the Plan, as there is a distribution option which automatically adjusts distributions amounts annually for cost of living. Mr. Montagna stated there should be a second calculator geared for retirees, as the current calculator is mainly targeted to those in the contribution phase. Mr. Canzano stated this could be very helpful for retirees to better determine their draw-down strategies.

Mr. Mumma asked when the calculator prototype would be ready. Ms. Gameroz stated the programmer had indicated 4-6 weeks for a prototype that would be ready for testing. Mr. Raggio asked if they had already met with the retirement systems. Ms. Gameroz confirmed that the Plan had met with representatives from LAFPP, LACERS, and DWP Retirement. Mr. Raggio commented that the cost could increase based on the variables the Board had highlighted; he stated it may be best to ask each participant to obtain annual statements from their respective retirement plans before working with the calculator as it may save the need to place in these variables. He stated that if the costs were to increase, staff should return to the Board for additional discussion. Mr. Montagna stated that many of the Board's comments could be addressed by adding in notes or adding data fields, which he was hopeful would not increase the development cost.

Mr. Canzano suggested a note be placed to indicate the projected retirement income displayed on the results page be clearly explained as pre-tax dollars.

A motion was made by Mr. Mumma, seconded by Mr. Amerian, to authorize staff to begin working with Great-West and its web developer to develop the proposed online retirement income calculator; the motion was unanimously adopted.

6. BOARD REPORT 12-59: CALIFORNIA DEFINED CONTRIBUTION PEER NETWORK

A motion was made by Mr. Mumma, seconded by Mr. Moutes, to approve funding for two staff members to attend a proposed meeting of the California Defined Contribution Peer Network in San Francisco, California, on February 7-8 or 14-15, 2013; the motion was unanimously adopted.

7. BOARD REPORT 12-60: STAFF REPORT

Ms. Chang indicated the format of the report had changed slightly to better reflect patterns year-over-year. She also indicated that retiree loan numbers were added to the report. Mr. Cannon commented on the retiree loan packet, requesting staff provide additional clarity on eligibility for those receiving periodic payments. Mr. Robison stated that retirees, if they were receiving periodic payments, could stop the payment, request a retiree loan, and then start up their periodic payment after the loan had been processed. Mr. Cannon expressed concern that the current language in the communications material might discourage participants receiving periodic payments from requesting a retiree loan altogether; it was not clear that there was another solution. Mr. Montagna stated that staff would review the material. Mr. Moutes asked whether this issue was due to administrative processes or a rule by the Internal Revenue Service (IRS). Mr. Montagna indicated it was due to administrative processes; he indicated the retiree loan process was manual as the Plan was the first of Great-West's plan sponsors to implement this service. He stated that as other plans begin to request the service, efficiencies should be developed by Great-West and staff.

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

8. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Canzano asked if there was a way to automate deferrals into a self-directed brokerage option (SDBO) account. Mr. Robison stated that a participant can allocate their deferral into the SDBO money market account. He stated the participant would then have to direct funds in the money market account into the actual desired securities.

Mr. Robison indicated that the Great-West representatives continued to receive inquiries about covered calls. Mr. Montagna indicated that staff was reviewing the issue and drafting a report to the Board.

9. NEXT MEETING DATE – JANUARY 15, 2013

12. ADJOURNMENT

A motion was made by Mr. Amerian, seconded by Ms. Whelan, to adjourn the meeting; the motion was unanimously adopted. *The Board adjourned at 11:38 a.m.*

Minutes prepared by staff member Esther Chang.