CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING DECEMBER 20, 2011 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

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

Staff:

Personnel: David Luther
Alejandrina Basquez
Steven Montagna
Natasha Gameroz
Esther Chang

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:05 a.m.

2. PUBLIC COMMENTS

Public comment was taken out of order, after Item #4.

Mr. Marshal Rumpf indicated that there were several responsibilities enumerated in the Plan's Bylaws and Investment Policy, with respect to the Plan acting on behalf of the participants and in their best interest, which he felt were in conflict with the decision to implement the upcoming investment menu change. He stated the change is scheduled at a time when there is a serious market downturn and that it would cause financial harm to those invested in the funds to be eliminated. He acknowledged Hartford's performance has been down over some years, but noted there are years where it rebounds greatly; he stated that around 2009 it went up about 45%. He stated he is willing to maintain that type of risk and asked if it would be possible for the change to be postponed to at least the end of the second quarter of 2012. He indicated that another option could be to freeze assets in the eliminated funds until such time when participants could transfer funds at a profit. He indicated that overall, Hartford had been down since April. He stated that if he had been notified of this change prior to that, when the fund was performing well, he could have transferred his funds without a loss.

Mr. Canzano asked Mr. Rumpf if he had looked into the self-directed brokerage option (SDBO) offered by Schwab and whether that option could meet his investment needs. Mr. Rumpf answered that it would after the initial transfer, however he is concerned with the transfer of funds; he indicated it is doubtful the market will recover in the next 3-6 months and does not want to take a loss. Mr. Perez asked Mr. Rumpf if he had discussed his concerns with staff as indicated at the last Board meeting. Mr. Rumpf indicated he had, but expressed remaining concern. Mr. Perez stated that he would want to hear staff's discussion and recommendation as well, and asked the discussion continue at the time the item regarding the investment menu change was addressed later in the agenda.

Mr. Craig Davis complimented the Board on the efforts they made on the behalf of Plan participants. He stated that he also had concerns over the upcoming menu change. He indicated that by taking away investment options, a participant no longer has the option to choose from different styles of investment. He indicated that diversification and choice of options were pivotal in his investment strategy and that he has spoken with investment advisors regarding this. Mr. Davis requested the Hartford fund be continued for a longer period of time and also requested that research be conducted to see how much money participants are making in each type of investment fund.

3. MINUTES

A motion was made by Mr. Perez, seconded by Ms. Whelan, to approve the November 15, 2011 minutes; the motion was unanimously adopted.

4. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Ms. Kwei from Mercer Investment Consulting indicated that she and Mr. Muir would provide an overview of the performance of the Plan's investment options for the quarter ending September 30, 2011. Ms. Kwei stated that from a macroeconomic standpoint, there were three things driving the market during the third quarter: the sovereign debt crisis in Europe, the slowdown in the U.S. economy, and the contagion effect on emerging market countries. She indicated it was not a very good third quarter, but markets have improved a bit since then.

She referred the Board to page 2 of Mercer's report. She indicated that the U.S. economy grew 2% in the third quarter. She stated that there is belief of a heightened level of risk for a double-dip recession; however, it would be milder than 2008 as a lot of the excess in market, particularly in the banking sector, has been removed. Ms. Kwei referred to page 4 of Mercer's report to discuss U.S. equities. She indicated that the S&P 500 was down 14% in the third quarter due to significant volatility. She continued that in October, however, the S&P 500 was up 5%. She indicated that defensive sectors held up better than cyclical sectors. She stated it has been challenging for active managers to outperform the index.

Ms. Kwei referred to page 6 to discuss equities outside of the U.S. She indicated that the MSCI EAFE index, which measures the performance of developed countries, was down 19% during this quarter. She stated that the underperformance was attributed to the appreciation of the U.S. dollar against most major currencies except the Japanese yen. She stated that emerging markets continued to underperform their developed market counterparts and were down 23%.

Ms. Kwei referred to page 8 to discuss fixed income interest rates. She indicated the FOMC stated that it was unlikely to raise rates above current levels until 2013. She stated that the yield is flattening, with 10 to 30-year rates at historical lows. She referred to page 9 for fixed income sector performance. She stated that the Barclays Aggregate was up 4% in the third quarter. She indicated the best performing sector was in Treasuries, despite the downgrade. She added that it had been very challenging for fixed income active managers to outperform the index; 97% of active fixed income managers, in the universe Mercer measured, underperformed. She stated that very few are overweighting in Treasuries.

Mr. Muir indicated Plan assets were a bit under $3 billion with about a $300 million or 9% decrease since the previous quarter. He indicated that the average participant balance is $74,000 and median participant balance was $32,000. He indicated over a third of Plan participants are invested in capital preservation, with 25% in stable value and 10% in cash value options. He stated that of the remaining assets, 11% were invested in the profile portfolios and 37% in U.S. equities.

Mr. Canzano requested that Mercer, in subsequent reports, refer to “lifecycle” funds as “profile” or “risk-based” funds or something similar, as he believed it would be more descriptive. Mr. Muir and Ms. Kwei acknowledged this request.

Mr. Muir referred to the Plan’s current fund expense ratios on page 20. He stated current fund net expense ratios were almost all below the universe median net expense ratio. Mr. Muir indicated the most notable problem funds were the American Funds Growth Fund of America, Lazard Mid-Cap Equity, and the Fidelity Diversified International Fund. He noted that these funds would no longer be a part of the Plan fund line-up, with the possible exception of Fidelity, pending the outcome of the upcoming procurement for the new DCP International Fund. Mr. Muir indicated the Growth Fund of America continued to underperform, mostly due to significant exposure to international stocks. He stated that Hartford also underperformed in the last quarter, as well as year-to-date, due to overweights in international stocks and other poor stock selection. He stated that though the Lazard Mid-Cap Equity fund performance had generally been in line this past quarter, the fund has underperformed due to poor stock selection over several years. He indicated Fidelity also continued to underperform.

He stated that the stable value fund was ranked relatively well against the universe index. He indicated Vanguard's 35% weight to Treasuries was beneficial to its performance. He stated that PIMCO had completely pulled out of Treasuries at the beginning part of the year, and the legacy of that decision was seen through the fund's year-to-date performance. He stated PIMCO is returning to a market neutral weight in Treasuries, which is the norm for bond funds. He indicated Mercer still maintains confident in PIMCO's investment management ability due to its overall performance. He indicated the more aggressive profile funds underperformed the conservative profile funds.

Mr. Schoonover expressed concern there might be too much emphasis placed on fund performance over the last 5 years, and as such, could result in the Plan missing out on lucrative opportunities when the market rebounds. Mr. Muir indicated that while Mercer does consider performance over the last 5 years, considerable weight is also placed on relative performance as an appropriate marker to assess how fund performance compares to outside similar funds. Mr. Canzano indicated that the Plan should continue to communicate that though the future is uncertain, there is significant effort in ensuring diversified investment options. Ms. Kwei added that Mercer reviews marketplace data to assess participant activity and to determine appropriate action, if any. She indicated that transfer activity has been low in the past few months and participants are checking balances more often and comparing historical balances.

Mr. Canzano asked Board Counsel if it would be appropriate to allow general public comment for latecomers. Mr. Kidder indicated Board members had not voted to formally close public comment; as such, it would be allowable should there be no objection from the other Board members. Mr. Canzano asked if there was any objection; as there were none, he re-opened general public comment (refer to #3 – Minutes).

5. BOARD REPORT 11-78: INVESTMENT MENU IMPLEMENTATION UPDATE

Ms. Gameroz indicated staff was working on implementing the second phase of the investment menu change, the creation of the DCP Small-Cap and International Stock Funds and the modification of the DCP Mid-Cap Stock Fund. She indicated staff was preparing for the procurement of investment management services for these funds. She stated that although the Board had previously approved the RFP and that Board counsel had completed review of the RFP, the release date had been postponed from the originally intended date of December 13. She stated the postponement was due to the creation of a new general contracting requirement, the Local Business Preference Ordinance (LBPO), which was adopted by Council on October 13. She indicated the LBPO would require that local businesses receive preference. Mr. Perez asked for clarification. Mr. Montagna indicated that there had not been much guidance in how this is to be applied and staff had many questions as well. Ms. Gameroz indicated that staff was working with the Personnel Department's Administrative Services Division (ASD) to see how the new ordinance will affect the RFP; she stated that she was informed that the ordinance would not become effective until guidelines were established by the Department of Public Works, Bureau of Contract Administration.

Additionally, Ms. Gameroz indicated that staff was also working on how to best communicate the requirements of the Business Inclusion Program (BIP) to potential bidders. She stated the BIP requires bidders to outreach for subcontractors. Mr. Montagna indicated all but one of the responses to the previous consulting RFP did not correctly address the requirements for the BIP. He stated that for the investment management RFP, he expected a larger volume of responses and was concerned about narrowing opportunities to consider institutional products because bidders do not understand the BIP. He indicated that it is difficult to determine what type of subcontracting opportunities could be outreached with this type of work.

Mr. Montagna indicated that staff was recommending postponement of the implementation date for the creation of the DCP Large-Cap, Mid-Cap, and Bond funds from February 24, 2012 to April 20, 2012. He indicated that additional time would be needed in order to refine communication materials in light of feedback received from a focus group that was coordinated a week prior. He stated that staff received helpful comments, but it was clear that there were parts of the material people did not fully understand. He stated additional time was needed for required levels of compliance and legal review. Mr. Montagna indicated that staff continued to be responsive to participant comments received. He indicated the comments have assisted in improving the communications piece, and staff would continue to address areas where improvement could be made.

Mr. Amerian asked staff if there might be a chance that further postponements may be necessary. Mr. Montagna indicated that there would be no further requests for postponement as this would provide two additional months during which to revise the communication materials.

A motion was made by Mr. Perez, seconded by Ms. Whelan, to approve the postponement of the implementation date for the DCP Large-Cap, Mid-Cap, and Bond Funds to April 20, 2012; the motion was unanimously adopted.

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

6. GREAT-WEST QUARTERLY REPORT

Ms. Usha Archer, Regional Director of Great-West Retirement Services, stated that she would begin the overview of Plan-related statistics for the quarter ending September 30, 2011. Ms. Archer referred to page 4 of the Great-West report. She stated the total assets as of December 19th was at a little over $3.1 billion. She noted the decline in total asset value was due to decreases in value. She stated approximately 25% of assets were stable value. She indicated that from her perspective regionally, she had seen other entities with the stable value or safer fund options at 40-50% of asset value. Ms. Tilley added that from her perspective with plans across the country, government plans' fixed assets are at a similar percentage.

Ms. Archer indicated 71% of total participants are contributing (a little under 29,000 participants). She stated that 11,510 are not contributing, with a majority of that number comprised of retirees. She estimated that approximately 15-20% of Plan participants are retired. She stated that 262 new participants were added to the Plan. She indicated that bi-weekly deferrals had dropped 14% quarter over quarter, but stated it was not a significant event as employees tend to max out on their contribution limit at year-end.

She stated that 1.6% of contributing participants have elected to open a Roth account, with the average Roth deferral for the quarter at $282. Ms. Whelan asked how the City compared to other agencies that have instituted the Roth option. Ms. Tilley estimated that other agencies have seen a 1-3% contribution rate. Mr. Robison indicated about 1,000 participants have attended Roth meetings. Mr. Canzano asked if there was a pattern in the questions asked in the meetings. Mr. Robison stated that the main question was, "What should I do?" He stated participants are generally advised to consider whether they will need the tax break now or after retirement, but to speak with tax advisors to determine what is best and why. Ms. Archer stated that younger workers may elect the Roth option as many believe tax rates will be higher at the time of retirement. Mr. Montagna asked Great-West if they had available the percentage of governmental plans that have instituted the Roth option. Ms. Tilley estimated 30-50 plans nationally. Ms. Whelan asked if Los Angeles County was included; Ms. Tilley responded that the county is working through some payroll incompatibilities and has not been able to implement Roth at this time.

Ms. Archer indicated that there had been a 50% increase in the number of total Plan participants since 1999. She indicated that Great-West is also tracking participant behavior, and reported that the largest amount of money is being transferred into the FDIC savings account and stable value options. She stated that despite efforts to educate participants regarding investment strategy, participant behavior continued to track fund performance – outflow of cash from funds where returns were lower, positive inflows of money to funds where returns were higher. Mr. Perez asked if these patterns have changed. Ms. Archer indicated that unfortunately, she has not seen this pattern change over the years, though she does feel that slowly participants are becoming more engaged.

Ms. Lisa Tilley, National Accounts Director, referred to page 18. She indicated that $10 million was withdrawn from the Plan to pay out full withdrawals for separation of service and retirements for about 190 participants. Ms. Whelan asked if Great-West could include in subsequent reports the breakdown between sworn and civilian employees that took a full withdrawal. Ms. Archer acknowledged her request and indicated she would work with City staff.

Ms. Tilley stated that withdrawals from the plan were down $2 million since last quarter. She stated partial distribution, periodic payment, and loan numbers did not change much from the previous quarter. She indicated that incoming and outgoing rollovers were fairly even in dollar amount, as compared to last year where there was more money being rolled out of the Plan. She stated that the top providers receiving Plan rollover funds were Pershing, Nationwide, Fidelity, and Wells Fargo, which she indicated were different than the top four recipients the quarter prior.

Ms. Tilley stated that loans continue to be popular in tough market conditions and that there was an increase in outstanding loans and defaults. Ms. Tilley noted that August, in general, tended to have higher outstanding loan numbers. Ms. Whelan commented this increase might be attributed to tuition payments due. Mr. Robison noted the default numbers would also include those defaults by close-to-retired members who would rather opt to not pay back the loan and consider it a deemed distribution. Ms. Tilley indicated a total of 157 hardships received by the end of the quarter, compared to the quarter prior with 122 hardship requests received. She remarked that Great-West had also noticed increased participant activity online and less transfer actions taking place.

Mr. Gary Robison, Local Regional Director, indicated that local contact had decreased slightly due to the automated voice response system now available through KeyTalk, which more easily provides information to participants. He indicated a majority of the participants coming in required assistance related to the Roth 457 option, accrued leave, catch-up, and/or DROP. He stated that staff also coordinated several field visits to Airports and DWP sites. Ms. Whelan stated that it might be of note to track when bargaining units will be receiving pay raises to assist employees in increasing their contributions in a timely manner. Mr. Canzano commented that he had recently used KeyTalk and complimented Great-West on the voice response system's ease of use.

Mr. Moutes requested that Great-West, in subsequent reports, include additional information over several years to more easily identify trends in participant activity, such as on page 23 of the report which displays loan activity since 2009. Ms. Archer acknowledged the request. Mr. Canzano commented that this type of information would be beneficial to include, especially in regard to tracking Roth participation.

Mr. Craig Davis, under public comment, asked whether there was a notary present when new enrollees were electing his/her beneficiary. Ms. Archer indicated a notary is necessary only if the participant is married and is electing as beneficiary a person that is not his/her spouse.

7. BOARD REPORT 11-79: GREAT-WEST CONTRACT AMENDMENT

Mr. Montana indicated staff had been working on an amendment to the Great-West contract as a result of extending their contract. He indicated staff had also taken the opportunity to make technical corrections and updates. He indicated that the updates included amended language for the Plan's communication approach. He stated that staff wanted to build in flexibility as staff may have different needs or may need to make adjustments for changing technology. He stated that the other updates entailed updated performance guarantees and language for lower participant fees. He stated staff was working with Board counsel to review language and no changes to impact the substance of the contract are expected. Mr. Canzano thanked staff and Great-West for their work in lowering participant fees.

A motion was by Mr. Perez, seconded by Mr. Moutes, to a) approve the draft amendment to contract with Great-West Retirement Services for Plan administration services to extend the term to December 31, 2016, reduce the annual compensation paid thereunder to a maximum of $36.97 per participant, and implement various other changes to the services provided, and b) authorize the Board Chairperson to execute the contract amendment upon final approval as to form by Board Counsel; the motion was unanimously adopted.

A recess was taken at 10:37 a.m.

8. BOARD REPORT 11-80: PLAN DOCUMENT REVISION

The meeting reconvened at 11:03 a.m.

Ms. Chang provided the Board with a brief overview of recommended revisions to the Plan's "Plan Document" in order to incorporate certain mandatory/optional Federal legislative changes.

Ms. Chang indicated the first recommended revision will add on to the definition of eligible retirement plans to which after-tax fund rollovers are permitted. She stated the revision will allow after-tax fund rollovers to defined-benefit plans and Roth individual retirement accounts (IRAs); the current definition permits after-tax fund rollovers only to defined contribution plans.

Ms. Chang stated the second recommended revision is related to a minimum requirement distribution (MRD) waiver in 2009. She indicated that a provision in the Worker, Retiree, and Employer Recovery Act (WRERA) provided for the waiver of the MRD in 2009 in response to the economic downturn of 2008; as such, Plan participants subject to a MRD in 2009 were able to waive the distribution if they chose. She stated the language was required to be added to the Plan Document to comply with the WRERA.

Ms. Chang stated the third recommended revision is related to an IRS provision that allows eligible, retired public safety officers to exclude from taxable income up to $3,000 annually for out-of-pocket payments made for health, accident, or long-term care insurance premiums. She noted the payments would need to be made directly to the provider from the retirement plan provider. She indicated this was brought to the attention of Plan staff by Mr. John Mumma. She stated that Pensions had already implemented this benefit for its members by deducting any out-of-pocket premiums directly from the member's pensions check and paying the health provider directly;

members would just need to exclude the eligible amount from his/her taxable income. She added that for DCP participants, there may be instances where certain insurance premiums paid to non-Pensions sponsored plans or long-term care insurance could be deducted from his/her DCP account to qualify for the tax benefit; she indicated that staff was working with Great-West to create a form to coordinate those transactions.

Ms. Chang indicated the fourth revision would allow for a provision under the Heroes Earnings Assistance and Relief Tax Act (HEART) of 2008. The HEART requires that for participants who have died during qualified military service after January 1, 2007, benefits that would have been vested at the time of death during active employment be provided in the same manner. Ms. Chang stated staff and Mercer are not aware of any situation that this could apply to as there are no additional benefits vested upon death under the DCP, but nonetheless Mercer has indicated that the inclusion of this language is likely required.

Mr. Moutes inquired about the possibility of having tax counsel available to ensure compliance and due diligence with respect to applicable IRS regulations. He remarked that from the standpoint of a defined-benefit plan, LACERS must be in full compliance with IRS rules or risk having its tax-exempt status pulled.

Mr. Perez asked Board counsel what City Attorney’s stance might be on outside tax counsel. Mr. Kidder responded that he has had preliminary internal discussions and that it could be feasible to have tax counsel, especially given the funds to pay for tax counsel would not be required of the City’s General Fund. He added he had determined that it would have to be procured by way of a Request for Proposal (RFP) process. He added he felt that it would be beneficial to have access to additional, specialized knowledge.

Mr. Canzano asked that staff compose a letter to the City Attorney’s Office indicating interest in tax counsel and a compliance review and requesting information to see how it could be arranged. Mr. Kidder recommended staff include in the language of the letter that the action was prompted by Board request. Mr. Perez requested he be copied on the letter in order that he might also discuss with the City Attorney’s Retirement Services Section, as he is already in contact with that office.

A motion was made by Mr. Moutes, seconded by Mr. Perez, to approve the recommended revisions to the Deferred Compensation Plan “Plan Document”; the motion was unanimously adopted.

9. BOARD REPORT 11-81: STRATEGIC PLAN – REVISED MISSION, VISION, VALUES STATEMENTS, & GOALS

Mr. Montagna indicated staff had been continuing to work on the Plan's Strategic Plan for the upcoming five-year period. He indicated staff had revised the Mission Statement based upon Board comments from the October meeting. He stated staff had also redrafted the Vision Statement. Mr. Moutes asked that the Vision Statement be shortened as he felt some of the language was included in the Value Statements. Mr.

Canzano indicated that he felt that the language was appropriate in length and included important language regarding customer service, but was not opposed to Mr. Moutes' suggestion. Mr. Canzano asked for input from the other Board members, who agreed with shortening the Vision Statement. Mr. Montagna indicated the statement would be revised.

Mr. Montagna indicated that staff had also drafted a values statement and a list of primary Plan objectives and goals. He asked if the Board had any comment or revision, which there was not.

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

10. BOARD REPORT 11-82 STAFF REPORT

Ms. Chang presented the Board with the Staff Report numbers for December 2011. She stated that were 199 participants that visited the division to discuss their accounts. She stated that 16 participants elected to defer their accrued leave amounts for a total of $346,641 contributed to the Plan. She stated there were 52 hardship cases processed, with 44 approved, for a total of $318,706 withdrawn from the Plan. She stated that there were 484 participants that had elected to obtain a new loan and that approximately $4.5 million was withdrawn for loan payouts. She indicated deferral amounts decreased 2.5% from last year, with approximately $19.3 million deferred in November 2011. She stated that 622 new Roth accounts had been established since August 2011, which is when the Roth option was introduced. She also added that the Plan had won a 2011 Gold MarCom Award for its Roth 457 campaign communication materials. She stated the MarCom Awards was an international competition that recognized creative achievement by marketing and communication professionals.

Mr. Moutes requested that staff include data for the past three years in order that the Board might see trends in activity, as was requested of the Great-West staff for its quarterly reports. Ms. Chang acknowledged this request.

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

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Perez referred to the upcoming investment menu change and asked that staff review options for keeping available the funds that are to be eliminated for a longer period of time, or to identify other alternative options. He asked staff to report back to see how potential options might affect the logistics of the fund change. Mr. Canzano commented that he would be interested in seeing what staff's report would show, and would not expect it to be simple to keep funds open for a small number of active investors who might choose this option and noted the need to balance the interest of all plan participants.

12. NEXT MEETING DATE – January 17, 2012

13. ADJOURNMENT

A motion was made by Mr. Perez, seconded by Mr. Schoonover, to adjourn the meeting; the motion was unanimously adopted.

The Board adjourned at 11:32 a.m.

Minutes prepared by staff member Esther Chang.