

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING FEBRUARY 19, 2013 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
Clifford Cannon, First Provisional Chair
Sangeeta Bhatia, Third Provisional Chair
Robert Schoonover
Margaret Whelan

Not Present:

John R. Mumma, Vice-Chairperson
Tom Moutes, Second Provisional Chair
Michael Amerian
William Raggio

Staff:

Personnel:	Steven Montagna	Alejandrina Basquez
	Natasha Gameroz	Esther Chang

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:10 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Mr. Cannon, seconded by Mr. Schoonover, to approve the January 15, 2013 minutes; the motion was unanimously adopted.

4. BOARD REPORT 13-01: PLAN REQUESTS FOR PROPOSAL & PROCESS
FOR DEMONSTRATING COMPLIANCE WITH THE CITY'S GENERAL
CONTRACTING REQUIREMENTS

Mr. Montagna stated staff was proposing the Board modify provisions for future request for proposals (RFPs) in order to minimize the opportunity for potential respondents to be excluded from consideration based on oversights in completing a City general contracting RFP response. He stated the process could be refined in a way that allows

vendors the opportunity to pre-submit certain documents before the actual RFP due date. Staff would review for errors made from misunderstanding the City's contracting requirements and allow the respondent enough time to re-submit the required documentation correctly by the submission deadline. He stated that there additionally were requirements that could be required at the time of award and not at the time of RFP response, which would further minimize disqualified responses.

He indicated these proposed changes were developed based on past RFP processes in which a limited or no number of firms applied and/or were deemed eligible. He stated the complexity of the City's general contracting requirements has grown over time, and a typical RFP now includes over 200 pages of material concerning those requirements alone, apart from the portions of the RFP addressing the actual services required. He indicated that although a pre-proposal conference is held to review these requirements, what often happens is that a marketing representative from the firm attends who then bears the responsibility of translating this information back to whatever parts of the vendor's organization will be responsible for addressing different requirements. He stated this can lead to misinterpretation and confusion.

He indicated that in staff's proposal, vendors would not be able to pre-submit responses to the actual services portion of the RFP, only those general contracting requirements for which pre-submission was possible. He stated that staff's intent was to implement this with the Custodial Services RFP first, expecting that the process might need to be refined following its first application, and then the Investments RFP would follow.

Mr. Canzano stated he believed this was an innovative approach to a challenging problem. Ms. Whelan asked Mr. Kidder for his thoughts. Mr. Kidder indicated the key to this process would be to maintain a level field for all respondents. He stated that staff would not want to be assisting vendors in complying with the requirements, but rather simply identifying where documents submitted were non-responsive. He stated that so long as it was administered in that way, he saw opportunities to streamline the process and possibly encourage more respondents to the RFP.

Ms. Bhatia stated that the Plan should be cautious when considering which requirements could be met at contract award; she stated instances at her department where the administrator ended up unable to finalize a contract as it happened that the contractor could not meet the requirement. Mr. Montagna replied that issues which led to difficulty in executing a contract more frequently related to the City's Standard Provisions language, and that in an RFP vendors typically indicate they can comply with those requirements but then request alternations at the contract writing stage.

Mr. Cannon asked for clarification on what resources would be available to help the vendor complete the RFP response. Mr. Montagna indicated there would be a distinction between helping to fill out a form compared to where to access resources, of which the Personnel Department's Administrative Services Division staff would assist in the latter in accordance with past practice.

A motion was made by Mr. Cannon, seconded by Ms. Whelan, to approve proposed changes to future Requests for Proposal issued by the Board that would allow respondents to pre-submit applicable general contracting requirements documents for the purpose of identifying errors or oversights in those documents such that proposers can correct them in advance of an RFP due date; the motion was unanimously adopted.

5. BOARD REPORT 13-02: STRATEGIC PLAN FINALIZATION & UPDATE

Mr. Montagna stated that staff had incorporated previous edits from the Board and had finalized the Plan's Strategic Plan for 2012 through 2016. He stated the goal was to have the document reviewed every six months by the Plan Governance Committee to review and update goals for the Plan. He also stated staff had accomplished many of the goals listed for 2012, and that the report contained an update for the Board's information.

A motion was made by Ms. Bhatia, seconded by Mr. Schoonover, to approve the final Strategic Plan for 2012-2016; the motion was unanimously adopted.

A motion was made by Ms. Bhatia, seconded by Mr. Cannon, to receive and file the information regarding progress on goals for Plan Year 2012; the motion was unanimously adopted.

6. BOARD REPORT 13-03: SELF-DIRECTED BROKERAGE OPTION PRE-TAX AND AFTER-TAX ACCOUNT SEPARATION

Mr. Montagna stated that there was a change to the self-directed brokerage option (SDBO). He stated participants opting for the SDBO with after-tax funds would now have separate accounts for after-tax and pre-tax funds invested through the SDBO. He stated the benefit of these accounts was that each could be invested differently. He indicated that this should be perceived as an enhancement by participants, as some seek to invest after-tax funds in stocks that might have a higher return and pre-tax funds in slower growth investments. He stated another benefit was the ability for an in-kind transfer if a participant ever opted to roll funds out of the Plan, meaning shares would not need to be sold and repurchased. He indicated there are no additional record keeping fees for the additional account, however, the participant would be responsible for the trading costs on each.

He indicated that this was implemented for new SDBO accounts beginning January 21, 2013, and those SDBO participants with after-tax funds in their accounts would be transitioned later in the spring. He indicated staff and Great-West were currently working out logistics and would be providing communication directly to the affected participants once the course of action had been determined.

Mr. Schoonover asked whether there was any information regarding comparisons of participant investment performance through the SDBO or the core options; he indicated it would be interesting to see and would be helpful for those that might be considering this option. Ms. Lisa Tilley of Great-West stated she would research this to see if there was any data that could be pulled specific to the Plan. Mr. Cannon asked what the measuring tool might be to assess this information. Mr. Brent Neese of Great-West indicated they would analyze changes in average account balances within core options versus the SDBO. He indicated Great-West did have the analytics and it could be brought back for the next meeting.

A motion was made by Ms. Bhatia, seconded by Mr. Schoonover, to receive and file the report regarding separating pre-tax and after-tax amounts in the Plan's SDBO; the motion was unanimously adopted.

7. BOARD REPORT 13-04: PROPOSED BUDGET FOR PLAN YEAR 2013

Ms. Gameroz stated the Plan's surplus would slightly decrease in 2013 from \$2.35 million to \$2.12 million, due to the assumption that the Senior Management Analyst I position would be filled for 2013. She indicated staff had attached a summary of projected revenues and expenses for the Plan in 2013, which included an assumption of a 1% annual participant growth rate, a carryover of funds for training, and the assumptions that the Benefits Specialist position would continue to be filled by a Clerk Typist and that the Senior Management Analyst I position would be filled beginning second quarter.

Mr. Canzano asked what the historical participant growth rate for the Plan might have been, particularly prior to 2008. Mr. Montagna stated that in the maturing years of the plan, which was within the last 10 years, a 1-2% growth rate had been fairly consistent until the City stopped hiring. He indicated that the 1% rate was still a very conservative assumption because in recent years enrollment had been flat or even slightly negative.

A motion was made by Ms. Bhatia, seconded by Mr. Schoonover, to approve the annual budget for Plan Year 2013; the motion was unanimously adopted.

8. BOARD REPORT 13-05: QUARTERLY BUDGET REVIEW & REIMBURSEMENTS

Ms. Gameroz stated staff recommended reimbursements to the Personnel Department for \$127,420.92 and to the City Attorney for \$16,553.67 for personnel costs for quarter ending September 30, 2012. She indicated staff had also provided a report on Plan revenue and expenditures; she stated that while the projected surplus at the end of five years was not quite at the target surplus of 50% of 6 months' expenses, staff's projection assumptions were conservative so actual numbers may be closer to the target.

A motion was made by Mr. Cannon, seconded by Ms. Bhatia, to receive and file the status report on Deferred Compensation Plan budget accounts for the quarter ending September 30, 2012; the motion was unanimously adopted.

A motion was made by Ms. Bhatia, seconded by Mr. Schoonover, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$127,420.92 and City Attorney for \$16,553.67, for quarter ending September 30, 2012; the motion was unanimously adopted.

9. BOARD REPORT 13-06: QUARTERLY COMMUNICATIONS
ACTIVITY REPORT

Ms. Chang stated staff was working on several communications projects. She indicated that the retirement calculator project was progressing, and staff expected to have a working prototype for testing by the end of March. She stated that staff had also begun work on a new project related to an initiative to assist participants with account maintenance. She stated the project included a web-interactive tool that would assist participants in identifying a handful of points that they would need to review for a healthy account, such as reviewing contribution or beneficiary elections. She indicated that in addition, a travel guide document would be created. She stated that this communication initiative would ideally be completed alongside the retirement calculator and launched together. Ms. Chang also reviewed upcoming projects and projects completed by staff for quarter ending December 2012.

A motion was made by Mr. Cannon, seconded by Ms. Bhatia, to receive and file the quarterly communications activity update; the motion was unanimously adopted.

10. BOARD REPORT 13-07: BOARD AND COMMITTEE MEETINGS
ATTENDANCE REVIEW

Ms. Gameroz stated staff had prepared the annual review of Board member attendance for Board and committee meetings during calendar year 2012.

A motion was made by Ms. Bhatia, seconded by Ms. Whelan, to receive and file information regarding the 2012 Board and Committee meetings attendance review; the motion was unanimously adopted.

11. BOARD REPORT 13-08: CONTRACT STATUS UPDATE

Ms. Chang stated staff had prepared the quarterly contract status update. She indicated the contract for Mercer Consulting was in the process of being finalized. She stated RFPs were to be released later in the year for Fund Custodian services and Investment

Management services for the mid-cap, small-cap, and international funds. She stated that the contract for Galliard, the investment manager for the DCP Stable Value Fund, would be expiring mid-next year and staff would begin preparations for the procurement in the near future.

A motion was made by Ms. Bhatia, seconded by Mr. Schoonover, to receive and file the quarterly contract status update; the motion was unanimously adopted.

12. BOARD REPORT 13-09: BEHAVIORAL FINANCE REVIEW

Ms. Gameroz stated that at the NAGDCA 2012 Conference, Professor Schlomo Benartzi had presented a session regarding practical behavioral finance solutions to improve retirement plans, during which he had offered a behavioral finance review at no cost to plan sponsors. She stated that in October 2012, Board members had requested the Plan reach out and obtain additional information regarding the review. She indicated staff had spoken with Professor Benartzi, who indicated he was working with the Allianz Global Investor Center on the project.

She stated staff had participated in a fact-finding conference call with Allianz Global Investor Center in December 2012. She indicated staff learned that data would be reviewed on a Plan level, and no individual participant data would be part of the review. She stated that Allianz further indicated they would be providing services as a means of promoting products offered by their firm with the intention of building a relationship with the City, which concerned staff.

She indicated that staff consulted with Plan counsel to address potential conflict of interest issues. She indicated Plan counsel advised that conflict of interest requirements prohibit a contractor from providing services when that contractor later benefits from the services previously provided. She stated that in order to avoid a conflict of interest, or even an appearance of conflict of interest, staff was recommending to not proceed with the review in accordance with Board Bylaws.

Mr. Canzano expressed he felt it would be prudent to support staff's recommendation. He indicated it would still be beneficial to conduct research on a Plan level with regards to options like auto-enrollment. Mr. Cannon asked whether the Board's Bylaws were aligned with the City's Ethics Code. Mr. Montagna stated that the Bylaws were more restrictive. Mr. Kidder stated that the Bylaws would have incorporated the Ethics Code; he stated the problem would be the issue of the impending RFP for investment management services and the appearance of utilizing free services from Allianz.

A motion was made by Ms. Bhatia, seconded by Mr. Schoonover, to approve staff's recommendation to not proceed with the behavioral finance review that was made available to the Plan through Professor Schlomo Benartzi and Allianz Global Investors; the motion was unanimously adopted.

13. BOARD REPORT 13-10: STAFF REPORT

Ms. Chang stated that staff had prepared the staff report for the month of January. She indicated there was a hike in the number of participants at the front counter, which could be attributed to the fact that many changes would have been required at the beginning of the year. She indicated retiree loans were now averaging about 20 new requests per month, with a few conversions as well. She stated Roth participation continued to rise incrementally. She indicated that Bank of America had changed their formula to slightly increase the interest rate on their allocation of the FDIC Savings Account option. She indicated that the underlying fund for the DCP Mid-Cap Fund was going to change, to be replaced by a lower cost share class which would lower the expense ratio on the Fund by two basis points.

Mr. Schoonover asked whether the 4.2% participation rate for Roth included participants contributing both pre-tax and Roth and those contributing only Roth dollars. Ms. Chang indicated it included both types of participants. Mr. Canzano asked if there was information available to discern between the two populations. Ms. Gameroz stated that new participants, such as academy graduates, were mostly contributing 100% Roth, while those with existing pre-tax accounts were adding on a Roth account.

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

14. REQUESTS FOR FUTURE AGENDA ITEMS

None.

15. NEXT MEETING DATE – MARCH 19, 2013

16. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Schoonover, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:09 a.m.*

Minutes prepared by staff member Esther Chang.