

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING MAY 20, 2014 - 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
Ray Ciranna
Mary Higgins
Margaret Whelan

Not Present:

Michael Amerian
Robert Schoonover

Staff:

Personnel:

Steven Montagna
Esther Chang
Paul Makowski

Alejandrina Basquez

City Attorney:

Curtis Kidder

1. CALL TO ORDER

Eugene Canzano started the meeting at 9:08 a.m.

2. PUBLIC COMMENTS

Mr. Canzano welcomed Mary Higgins, the new Retirement Plan Manager of the Water and Power Employees' Retirement Plan, to the Board.

3. MINUTES

A motion was made by Margaret Whelan, seconded by Cliff Cannon, to approve the March 18, 2014 Regular Meeting minutes; the motion was unanimously adopted.

4. GREAT-WEST PLAN QUARTERLY REVIEW: PERIOD ENDING 3/31/2014

Lisa Tilley, of Great-West Financial, began by introducing Lisa Braun-Ward, of Great-West Financial, as the manager over the local City Hall staffed retirement plan representatives and indicated that Ms. Braun-Ward was in the process of looking for a replacement for Gary Robison who had taken a position in another plan. Ms. Tilley then introduced Joan Watkins, of Great West Financial, who began discussion of the Plan Overview section of the review. Ms. Watkins then reviewed sections in the quarterly report covering plan assets, participant statistics, and net cash flow.

Mr. Canzano asked if there was a particular reason for the amount of cash flow moving out of the plan for this quarter. Ms. Watkins indicated that she would get more information. Mary Higgins asked if the total assets shown depicted both retirees and active employees. Ms. Watkins responded affirmatively. Ms. Higgins asked for clarification on how participants use profile funds. Ms. Watkins indicated a trend of participants leaving a balance in conservative allocations when they start and adding new contributions into a higher risk profile fund. Ms. Watkins then concluded review of the Plan Overview section of the quarterly report by discussing allocation and account balance statistics.

Ms. Tilley began discussion of the Administrative Overview section and reviewed distributions and rollovers. Ms. Tilley indicated that more funds were released out of the plan than collected during the quarter but that the ratio is relatively flat compared to other plans. Ray Ciranna asked if the comparison to other plans was for other public organizations. Ms. Tilley responded affirmatively. Mr. Canzano asked whether the public organizations were government agencies. Ms. Tilley responded affirmatively. Ms. Tilley then indicated that the flat comparison may be due to the efforts the Plan makes towards personalized communication. She indicated that website usage and the average account balance of the City's Plan were higher than for other comparable plans. Mr. Canzano asked if there could be a chart showcasing statistics of municipal peers in major categories. Steven Montagna indicated that the National Association of Government Defined Contributors Association collects peer information but does not currently collect authorization to release the information to the public or to other entities. Mr. Ciranna asked if years of service could be added to the average account balance table of data. Ms. Tilley indicated that Great West did not have access to City data to provide years of service information. Mr. Montagna indicated that staff may be able to produce this data.

Ms. Tilley reviewed the rollover summary of top ten providers and indicated that Raymond James and Pacific Life were new on the listing. John Mumma asked if the summary included any retirement investment account or just IRAs. Ms. Tilley indicated that the top ten listing was comprised only of IRAs and that plan to plan transfers were not included. She then provided the loan overview and indicated that the number of new loans taken in January was less than the same period in the previous year. Mr. Canzano asked if the outstanding loans constituted the number of loans and not the

number of participants. Ms. Tilley responded affirmatively. Mr. Ciranna noted that it appeared almost half of the Plan's participants have an outstanding loan and asked if there was any concern. Ms. Tilley indicated that the actual number of participants with an outstanding loan was below 50%, as the outstanding loans count included participants with a second loan. She indicated that the rate of outstanding loans was typical with plans that allow loans. She then indicated that participant satisfaction with the plan was generally higher with a loan program available. Mr. Montagna indicated that the actual asset amount for outstanding loans was relatively modest at \$173 million of the \$4.3 billion in total assets. Mr. Canzano noted that he was in favor of the loan program but was torn by the level of education about the program. Mr. Cannon asked if there was any correlation between loans and hardships. Ms. Tilley indicated that hardships would likely increase if loans were not available. Ms. Whelan indicated that the loan program was helpful even for retirees as it helps preserve their "nest egg", as opposed to hardship withdrawals that would deplete retirement savings. Ms. Tilley indicated that the 1st to 2nd loan ratio was much better in comparison to other plans that allow two loans. Ms. Tilley then discussed hardships and noted that the total hardships processed during the quarter decreased in comparison to the previous quarter. She then continued to review KeyTalk and internet statistics. Mr. Ciranna asked if a trend line could be added to the report and if it could go back a few years. Ms. Tilley responded affirmatively. She then discussed a correction to the online statements delivery numbers for the prior quarter, indicating that the currently reflected statistics for online statement delivery are confirmed as accurate.

Ms. Braun-Ward began the Local Office Activity section of the report and discussed participant visit and meeting statistics. Mr. Canzano asked for clarification about purchase of service credit. Ms. Braun-Ward indicated that it was for time purchase under a City pension plan only and not for an outside entity. Ms. Whelan indicated that the Deferred Compensation Plan would be an essential part of retirement plans for LACERS Tier 2 members. Ms. Higgins concurred in regards to Tier 2 DWP members. Ms. Whelan indicated that an aggressive advertisement campaign to Tier 2 members may be beneficial. Mr. Montagna indicated that the auto enrollment program could provide that information as it should focus on new hires in all three retirement systems. Ms. Whelan indicated that the departments with the lowest enrollment figures would have the largest impact and need the largest amount of education. Tom Moutes indicated that many employees in departments with low enrollment know very little about their benefits and may not even know of which pension plan they are a member. Mr. Cannon asked for clarification on Tier 2. Mr. Moutes indicated that the contribution rates are higher and the benefits are lower in comparison to Tier 1. Ms. Whelan indicated that the normal retirement age is also higher than Tier 1. Mr. Canzano noted that the contribution percentage for Tier 2 seemed comparable to current total contribution percentage for Tier 1. Mr. Moutes indicated that the contribution percentage for Tier 2 is based on unfunded liability and could potentially increase in the future. Mr. Montagna indicated that the auto enrollment program report would soon be scheduled with the Plan Governance Committee.

5. BOARD REPORT 14-15: 2013 DEFERRED COMPENSATION PLAN ANNUAL REPORT

Mr. Montagna discussed updates to the content and appearance of the Annual Report for 2013. He indicated that new data was included in the report which was not included previously and that the report included metric categories as identified at the Board's strategic planning meeting in November 2013. He then indicated that metrics continued to be a developing component of the Plan and future meetings would help to define these four categories. He then highlighted a few portions of the report including the overall rate of return for the Plan and the percentage of retired participants taking periodic payments, which he noted may be an area where metrics could play a role.

Mr. Mumma asked about the number of retiree participants who did not make a withdrawal. Paul Makowski indicated that 44% of participants did not take a withdrawal. Mr. Moutes asked if the number of periodic payments included participants who withdrew funds to purchase a LACERS annuity. Mr. Makowski responded negatively. Mr. Moutes then indicated that the number of participants taking a periodic payment could actually be larger. Mr. Canzano asked if periodic payments included Required Minimum Distributions. Mr. Montagna responded affirmatively. Mr. Canzano asked if there was a way to see how many participants take a Required Minimum Distribution. Ms. Tilley indicated that the information was included in the Great-West quarterly report and that the information could be listed as either partial or periodic, depending on how the participant makes the request. Mr. Montagna indicated that the periodic payment information correlates to the categories of Plan metrics and will be revisited in future communication to the Board. Mr. Ciranna asked if a survey would be part of the information gathering efforts for developing metrics. Mr. Montagna responded affirmatively. He also indicated that surveys may have a much larger scale of use and may be used for various metric and Plan topics. Mr. Mumma asked about the significance in the differences between red and green colored lines on page 17. Mr. Makowski indicated that green were new departments and red were old departments. Mr. Mumma asked for a note to be added. Mr. Makowski responded affirmatively.

A motion was made by Mr. Moutes, seconded by Mr. Cannon, to adopt the 2013 Deferred Compensation Plan Annual Report; the motion was unanimously adopted.

6. BOARD REPORT 14-16: 2013 PENSION SAVINGS PLAN ANNUAL REPORT

Mr. Montagna discussed the background of the Pensions Savings Plan (PSP), which is administered by the Personnel Department for part-time employees who are not members of a regular City pension plan. He indicated that the PSP was originally created in 1993 and that it was included as an advisory responsibility of the Board of Deferred Compensation Administration in 1995. He indicated the PSP was also a 457 plan, as was the Deferred Compensation Plan. Ms. Whelan asked who was responsible for transferring the advisory responsibility to the Board of Deferred Compensation

Administration. Mr. Montagna indicated that a task force was developed at the time to advise City Council, and that employee labor organizations played a significant role. Ms. Higgins indicated that the emphasis behind the creation of the task force was to find a Social Security equivalent for part-time employees.

Mr. Montagna indicated that although the Personnel Department is responsible for administration of the PSP, the Administration Code dictates that the Board of Deferred Compensation Administration acts in an advisory capacity to the Personnel Department's General Manager. He then indicated that the number of participants was quite large, though the amount of assets was low when compared to the Deferred Compensation Plan. Ms. Whelan asked for clarification if the PSP was a less expensive program than Social Security. Mr. Montagna indicated that the PSP was less expensive for the City and that the PSP could be rolled over to the Deferred Compensation Plan.

Mr. Mumma asked why the Stable Value Fund was the default investment fund. Mr. Montagna indicated that the Internal Revenue Code requires the participant be guaranteed a reasonable rate of return. Mr. Moutes asked if the Administrative Code sections that apply to the Board and PSP could be sent to the Board members and attached in applicable reports moving forward. Mr. Montagna responded affirmatively. Mr. Cannon asked if the PSP participants were automatically enrolled. Mr. Montagna responded affirmatively. Mr. Cannon asked about withdrawal requirements. Mr. Montagna indicated that the withdrawal requirements were similar to the Deferred Compensation 457 Plan withdrawal requirements in that the participant must be separated from City service. Ms. Whelan asked about the average account balance. Mr. Montagna indicated that it was about \$1,700. Alex Basquez indicated that participants can also choose to leave funds in the PSP and use it for retirement. She then indicated that outreach to participants was a complicated issue and that staff was looking into ways to improve communication with these participants.

Ms. Whelan indicated that the City has been in the habit of hiring more part-time employees in recent years. Ms. Higgins indicated that the program was initially chosen at a time when the City hired many student workers and that the program was advantageous for student workers to access funds once short term employment terminated. Ms. Whelan asked about the administration costs. Mr. Montagna indicated that the Administrative Code requires that administration costs be paid by participant fees. Mr. Canzano asked if there was a provision for "de minimis" accounts. Mr. Montagna indicated that the Administrative Code allows for the closing of accounts but that there was no precedent for the Plan in doing so. Mr. Moutes asked if there was a law requiring the Plan to relinquish funds to the State or other governmental entity if contact with the participant has not existed for a specified number of years. Mr. Montagna indicated additional research on this topic was needed. Mr. Moutes clarified that he did not recommend the action but that knowing all legal options of the Board was preferable. Mr. Montagna indicated that Great-West would start bringing semi-annual reports for the PSP to the Board, and staff would use this opportunity as a means of further addressing administrative issues related to the Plan.

A motion was made by Mr. Cannon, seconded by Mr. Ciranna, to receive and file the 2013 Pensions Savings Plan Annual Report; the motion was unanimously adopted.

7. BOARD REPORT 14-17: CONTRACTS, PROCUREMENTS AND FUND MANAGER SEARCHES UPDATE

Esther Chang discussed the status of the Plan's Request for Proposals (RFP) and contracts. She indicated that the RFP for the FDIC-insured bank savings account was released on April 8th and that a mandatory pre-proposal was held on May 1st. She then indicated that six respondents attended the pre-proposal conference and that respondents have until June 13th to submit a proposal. She indicated that a recommendation to the Board was anticipated to be made at the July Board meeting. Mr. Ciranna asked about use of the Buck Consulting contract. Mr. Montagna indicated that Buck had not been used and the Plan was currently reviewing its relationship with the contractor.

A motion was made by Mr. Moutes, seconded by Mr. Ciranna, to receive and file the report regarding pending investment manager fund manager searches and procurements, and review of Plan contracts; the motion was unanimously adopted.

8. BOARD REPORT 14-18: ELECTIONS UPDATE

Ms. Chang reviewed candidate filings for the LACERS and LAFPP participant Board seats. She indicated that ballots were mailed by the City Clerk on April 30th, and that tallying of the results would commence on May 21st. Ms. Whelan asked when results would be available. Ms. Chang indicated that unofficial results could be available as early as May 21st but that a final election report would be made at the June Board meeting.

A motion was made by Mr. Ciranna, seconded by Mr. Mumma, to receive and file the report regarding elections for the LACERS participant and LAFPP participant representatives on the Board of Deferred Compensation Administration; the motion was unanimously adopted.

9. BOARD REPORT 14-19: NAGDCA BOARD CAPITOL HILL MEETING

Mr. Montagna discussed highlights of the annual National Association of Government Defined Contributors Association (NAGDCA) Board trip to Washington D.C. He indicated there was a growing consensus among legislators towards eliminating the exemption for early withdrawal penalties on public plans. He indicated the bill was not

currently moving forward, but could become part of an upcoming, unrelated bill should a legislator require funding sources. Ms. Whelan asked if other City representatives have served on the NAGDCA board. Mr. Montagna indicated that no other City members have held seats. Mr. Ciranna asked if the issue regarding elimination of the early withdrawal penalty exemption had been placed on the City's legislative agenda. Mr. Montagna replied that it had not. Mr. Ciranna requested the motion be revised to instruct staff to send a communication to the City Council and Mayor to place the possible elimination of the early withdrawal penalty issue and other NAGDCA legislative issues, as appropriate, on the City's legislative agenda. Mr. Montagna responded staff would do so. Mr. Ciranna indicated the letter did not have to come back to the Board for review; Ms. Whelan stated she would sign the correspondence.

A motion was made by Mr. Mumma, seconded by Mr. Moutes, to receive and file information regarding the March 2014 Board meetings of the National Association of Government Defined Contribution Administrators with Federal legislators/regulators and for staff to prepare a letter to the City Council and the Mayor to request relevant Plan legislative matters be placed on the City's legislative agenda; the motion was unanimously adopted.

10. BOARD REPORT 14-20: TRAINING/TRAVEL ELECTIONS FOR FY 14/15

Mr. Makowski discussed options for travel during the 2014-2015 fiscal year and asked Board members to return their preferences for travel events by Friday May 23rd. Mr. Canzano asked if the IFEBP – Public Sector 401, 403, 457 Plans course was part of the Certificate Series. Mr. Makowski responded affirmatively. Mr. Moutes asked about flexibility in providing interest since many events still had "To Be Determined" dates and times. Mr. Montagna indicated that staff would report back on options. Mr. Canzano indicated that training should be a main focus to keep Board members informed. Mr. Cannon noted that some events overlap on dates. Mr. Montagna indicated that the dates were not known when the original list of events was adopted by the Board. Mr. Moutes asked if updates about event dates and locations could be provided. Ms. Basquez responded affirmatively.

11. BOARD REPORT 14-21: STAFF REPORT

Ms. Chang reviewed activity for the month of March 2014 and reviewed counter, accrued leave, hardship, and loan statistics. She noted that a 12-month rolling average was added to the loan statistics. She then reviewed deferral and Roth statistics and the project update list for completed and pending staff projects. Mr. Mumma asked if the staff report could add retirement calculator statistics. Ms. Chang responded affirmatively.

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

12. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Canzano indicated he would like information as to why Plan participants request loans, including a possible survey. He also indicated he would like to explore Personal Financial education for participants, particularly for Tier 2 participants. Ms. Whelan indicated that the retirement calculator could be part of financial education. Mr. Montagna indicated that the program of financial wellness presented by the City of New York at the Board's strategic planning meeting could be revisited. Ms. Basquez indicated that financial wellness would be a component of the auto enrollment program.

Mr. Ciranna stated he would like additional information regarding fiduciary duties of the Board, including information related to the City Council's ability to overturn Board decisions and legislation related to the Plan at the state level. Mr. Montagna stated a presentation related to Mr. Ciranna's request had been provided to the Board a few years ago, and this information could be provided again.

13. FUTURE MEETING DATES

The next Regular Meeting is set for June 17, 2014.

14. ADJOURNMENT

A motion was made by Mr. Whelan, seconded by Mr. Cannon, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:04 a.m.*

Minutes prepared by staff member Paul Makowski.