

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF JUNE 22, 2006 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:

Present:

Shelley Smith, Chairperson
Joya De Foor, Vice-Chairperson
Eugene Canzano
Don Keith
Richard Kraus
Bill Stein
Maggie Whelan

Staff:

Personnel: Maryanne Keehn, Personnel
Steven Montagna, Personnel
Bryan Cowitz, Personnel
JoAnn Dominguez, Personnel
Richard Bobb, City Attorney

1. CALL TO ORDER

Shelley Smith called the meeting to order at 9:15 a.m.

2. PUBLIC COMMENTS

Ms. Smith asked if there were any public comments.

Cliff Ruff of the Los Angeles Police Protective League indicated that with respect to the report from the Plan Governance Task Force, he believed the Board should clearly set forth how the Labor Representative will be selected. Cheryl Parisi of ACSME Council 36 indicated that City unions were in the process of forming a new coalition and that, once this was done, it was her expectation that more detail could be developed regarding the coalition's process for selecting the Labor representative on the Board. Further discussion of these topics continued under consideration of Item 7.

3. MINUTES

Richard Kraus indicated he wished to amend some certain details within the proposed minutes, including the April 19, 2005 minutes, in which he stated he wanted on record

his inquiry into the regulatory issues affecting the American Funds. Bill Stein further asked that the designation of "special" be removed from the May 16, 2006 meeting minutes. **A motion was then made by Richard Kraus, seconded by Bill Stein, to approve, as amended, the minutes of April 19, 2005; May 17, 2005; May 2, 2006; and May 16, 2006; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION AMERICAN FUNDS

(Consideration of this item took place after discussion of Items 1, 2, 3, 5, 6, 7, and 9.)
Ms. De Foor left the room prior to consideration of this item.

Lily Matias, Vice President and Client Relationship Manager, and Steve Caruthers, Investment Relationship Manager, both with American Funds, were present to review portfolio performance for the Growth Fund of America and Investment Company of America. Ms. Matias began by updating the Board regarding pending regulatory issues affecting the American Funds. She indicated that one issue had been partially resolved, specifically the one regarding sufficient disclosure in prospectuses regarding broker compensation. She stated that a trial judge had ruled in favor of the American Funds, although the California State Attorney General had appealed. She stated that other matters were still outstanding following a hearing held with the NASD, but that a decision might not be made until 2007.

Mr. Caruthers then reviewed performance information for both funds, noting that Growth Fund of America had outperformed the S&P 500 by 10% with top holdings such as Google and strong exposure to the energy sector, while in the past six weeks Investment Company of America had performed in the top decile of its peers. Don Keith asked if the funds would still have beaten their benchmarks after accounting for fees, and Mr. Caruthers indicated they would have. Mr. Kraus asked how American Funds dealt with its large size, and Mr. Caruthers indicated that American Funds had been addressing the size issue for 75 years, and that its response was that its portfolio manager system allowed no single manager to be responsible for an outsize portion of a fund, which kept each fund as a whole fundamentally nimble. He further stated that the funds have very low turnover, most recently around 19%, and that the average holding period for a given issue was five years.

This concluded the American Funds presentation.

5. BOARD REPORT 06-22: RFP FOR PLAN ADMINISTRATION

Ms. Smith asked if there were comments or changes from Board Members. Mr. Kraus requested several revisions, including the following: correction to page numbers in the table of contents; adding a date to one of the charts; requesting a link to the City's website on the Plan Administrator website; adding a risk profile/asset allocation recommendation as one of the requested features on the website; clarifying that the composition of the asset allocation portfolios could change; and adding additional

details to one of the situational questions. Steven Montagna indicated these were all changes that could be made.

Mr. Kraus further asked whether the question regarding complaints filed with agencies should include local agencies, but other Board members indicated they were not aware of any investment-related regulatory agencies at the local level. He inquired as to whether it was possible to have the Administrator monitor Catch-up eligibility, but Mr. Montagna indicated that at present this was not something it would be realistic to expect an outside firm to record-keep. Finally, Mr. Kraus asked if there had been any statistical changes to the DCP Rating Factors/Weights. Mr. Montagna indicated these had not changed. Following this discussion, **a motion was made by Bill Stein, seconded by Richard Kraus, approving the proposed RFP as amended; the motion was unanimously adopted.**

6. BOARD REPORT 06-23: BUDGET STATUS REPORT-03/31/06

Ms. Smith indicated that the report contained a recommendation to transfer a quarterly reimbursement to the Personnel Department as well as to consider information prepared by staff concerning the potential for fee reductions. Ms. Smith invited questions or comments from Board members. Mr. Kraus asked whether the budget projections incorporated the potential cost of elections in the event the Plan changed to direct election of some of its members. Mr. Montagna indicated the projections did not.

Board members then discussed scenarios presented in the staff report regarding potential fee reductions. Ms. Smith and Maggie Whelan indicated they were skeptical of reducing or eliminating the fifty-cent fee given its size relative to the administrative fee. Ms. Whelan asked what impact a reduction in the fifty-cent fee would have on the Trust Fund, and Mr. Montagna responded that it would have a substantial impact but that all Plan revenue/expenses were now considered globally, and that taken as a whole the scenario involving a 25-cent reduction would not create a structural deficit for the Plan. Mr. Montagna also stated that one important difference between the fifty-cent fee and the administrative fee was that the former was paid only by contributing participants, whereas the latter was paid by all participants, meaning that to an extent those paying the fifty-cent fee were subsidizing others in the Plan.

Mr. Stein indicated that he would like to study the issue further, including obtaining feedback from the Plan consultant and looking at best practices in other plans. Ms. Smith indicated that the issue could be referred to a Board Committee. Eugene Canzano indicated that he thought there was sufficient information for the Board's consideration of this issue to continue.

After further discussion, **a motion was made by Eugene Canzano, seconded by Bill Stein, approving reimbursement from the Deferred Compensation Plan Trust Fund #896 to the Personnel Department for \$48,159.32 for the quarter ending 03/31/06, approving an increase in the "Office & Administrative Expense" budget from \$2,000 to \$10,000, and referring further consideration of potential fee**

reductions to the Plan Governance Committee; the motion was unanimously adopted.

7. BOARD REPORT 06-24: PLAN GOVERNANCE COMMITTEE RECOMMENDATIONS

The Board considered the discussion topics included within the staff report, beginning with the topic of protocols for selection of the Labor Representative. Ms. Smith indicated that she understood the recommendation of the Plan Governance Committee/Task Force to be encouraging greater transparency in the labor coalition's selection process. Ms. Whelan indicated it was not the intent of the Committee to recommend that the Board dictate how the selection process be conducted.

Cheryl Parisi, who was in the audience, indicated that she supported the Committee's recommendation and re-stated her position from Public Comments that greater transparency should be the goal of the union coalition once it was formed. Mr. Canzano asked whether, given other Committee recommendations relative to having Plan participant members of constituent groups select their representatives, it would be appropriate to have this approach utilized by the unions as well. Ms. Parisi indicated that while she supported this concept for the directly elected representatives, and supported the concept that the labor representative be a Plan participant, she did not believe it was necessary to limit the labor coalition vote to only include Plan participants.

Board members next discussed the question of who should be the plan sponsor representatives on the Board. Mr. Keith indicated he was concerned about the cost of elections for the elected positions, as well as the training costs for members that may be frequently replaced with a three-year term limit. He indicated his interest in a five-year term limit. Finally, Mr. Keith indicated he was not in favor of having the retirement/pension system managers serve on the Board, because doing so would give the balance of authority on the Board to positions that were not directly elected.

Board members then debated how the recommended Board governance structure divided authority. Ms. Smith indicated she believed that the four elected positions in combination with the labor position gave participants the balance of authority vs. the four plan sponsor positions. Ms. Whelan indicated that even the manager positions, as participants in the Plan, would be focused on the best interests of Plan participants. She further stated that it would not be practical to have an even number of Board members in the event of tie votes. Ms. Parisi stated that from labor's perspective the Board governance structure was well balanced and gave employees the strongest voice on the Board, and that she strongly supported the recommendations of the Committee.

Mr. Stein stated he believed it was important to keep in mind that these recommendations came from a task force of Plan participants and reflected their wishes. He stated he felt the proposed governance changes would be a significant improvement, and that his perspective was that the proposal gave the balance of authority to elected positions. He indicated his only concern was with respect to term

limits, which neither the Committee nor the Task Force members had recommended. Mr. Stein further stated that he did not believe training was a significant concern, given the educational opportunities offered through the National Association of Government Defined Contribution Administrators (NAGDCA), as well as ongoing information made available through staff, the consultant and the City Attorney.

Ms. Whelan asked if any members of the Task Force present in the audience would like to speak. Task Force member Chuck Rubin stated that the Task Force concern was in establishing some element of direct representation on the Board, but to balance that they also wanted an element of stability and expertise as represented by the addition of the three retirement/pension system managers. He stated that the Task Force further believed that adding the retirement/pension system managers would create opportunities for all four programs to share ideas and coordinate resources.

Mr. Kraus indicated he had a concern with the cost of the elections. Mr. Montagna indicated that election costs had not been incorporated, but that the estimates prepared by staff were worst-case, assumed both a primary and runoff election, and that even making those assumptions it amounted to a \$40,000 annual cost, which should not present a serious impact on the Plan budget.

Ms. Whelan stated that from her perspective the more people were involved, the better the Plan. Mr. Canzano indicated that he shared Mr. Keith's concern about the retirement/pension system manager positions and that he was not in favor of adding more ex officio positions to the Board. He stated that despite the assumption that a retirement system manager would automatically bring more expertise to the Board, a recent short-term appointment for the DWP retirement plan manager had involved an individual who had no background in retirement issues.

Ms. Whelan indicated that the situation to which Mr. Canzano was referring occurred based on an old set of rules which did not allow for civil service appointments for the retirement manager position, but that this position was now a civil service position. Mr. Canzano indicated that notwithstanding this, he believed that the retirement plan manager positions diluted the power of the elected positions, and added that with respect to elections he would only support them in the event the City Clerk was charged with conducting the process.

Ms. Smith then asked the Board to begin moving forward with respect to acting on the specific recommendations generated by the Committee. **A motion was made by Bill Stein, seconded by Maggie Whelan, to approve recommending to the City Council that the three retirement/pension system managers from LACERS, Fire/Police Pensions and the DWP Retirement Plan be added to the Board; the motion was approved by a vote of 4-3 (Kraus, Smith, Stein, and Whelan in favor; Canzano, De Foor and Keith opposed).**

Mr. Keith left the room.

With respect to the question of deleting the City Treasurer position from the Board, Joya De Foor indicated that she supported this recommendation because she felt she could best perform her fiduciary duties relative to the Plan if she was off the Board. **A motion was made by Joya De Foor, seconded by Maggie Whelan, to approve recommending to the City Council that the City Treasurer position be deleted from the Board; the motion was adopted by a vote of 6-0 (Canzano, De Foor, Kraus, Smith, Stein and Whelan in favor).**

With respect to the recommendation to maintain the General Manager Personnel Department position on the Board, **a motion was made by Eugene Canzano, seconded by Bill Stein, to approve recommending to the City Council that the General Manager Personnel Department position be retained on the Board; the motion was adopted by a vote of 6-0 (Canzano, De Foor, Kraus, Smith, Stein and Whelan in favor).**

Mr. Keith returned to the room.

There was discussion regarding the issue of whether the retirement plan manager and General Manager Personnel Department positions should be required or encouraged to be participants in the Plan. Ms. Whelan indicated that the Committee had discussed this but was not sure about how participation in the Plan could be required. Mr. Canzano indicated he believed this was a reasonable requirement. Ms. Smith indicated that it might be preferable to address the issue by taking action to simply require that all Board members be participants in the Plan as a condition of serving. As a result, having passed the gavel to Ms. De Foor, **a motion was made by Shelley Smith, seconded by Maggie Whelan, to approve recommending to the City Council that all members of the Board be required to be participants in the Plan as a condition of serving; the motion was unanimously adopted.**

The Board next discussed the issue of the proposed elected positions on the Board. **A motion was made by Eugene Canzano, seconded by Maggie Whelan, to approve recommending to the City Council that the three current positions on the Board representing LACERS, Fire/Police Pensions and DWP Retirement be deleted and replaced with three new positions which would be directly elected by Deferred Compensation Plan participants who are members of these respective constituent groups; the motion was adopted by a vote of 6-1 (Canzano, De Foor, Keith, Smith, Stein and Whelan in favor; Kraus opposed).**

With respect to the question of terms, Mr. Canzano indicated he saw three years as the bare minimum term length and had a preference for longer terms. Mr. Keith also supported longer terms. Ms. Smith indicated that she believed that three years was an appropriate length. Ms. De Foor stated that so long as term limits were not imposed, she was comfortable with three years as well, although she indicated that weighing against that was the fact that the Plan's contracts were generally for five years, raising the potential that any individual representative might not get to participate in those selection processes. Following this discussion, **a motion was made by Bill Stein,**

seconded by Richard Kraus, to approve recommending to the City Council that the term length for all elected positions on the Board be set at three years, and further that none of these terms be subject to term limits; the motion was unanimously adopted.

The Board then discussed the recommendation concerning the filling of vacancies on the Board. Ms. Smith indicated that she had concerns about this recommendation providing such discretion to retirement boards to fill the positions with any retirement plan member they chose and potentially for a substantial term balance. Mr. Canzano indicated the Committee's concern was in avoiding the expense of frequent elections every time a vacancy occurred. The Board discussed a compromise approach in which positions could be filled through special election if the vacancies were between one and two years, but at less than one year they would be filled by one of the elected positions on the retirement boards. As a result, **a motion was made by Eugene Canzano, seconded by Bill Stein, to approve recommending to the City Council that in the event a vacancy occurs in one of the LACERS, Fire/Police Pensions or DWP Retirement positions, the respective retirement boards should be allowed to fill that position from among their elected representatives if the vacancy will be less than one year, but if the vacancy is between one and two years a special election would be held; the motion was unanimously adopted.**

With regard to the recommendation concerning employee organizations and the Labor Representative on the Board, it was the consensus of the Board that a communication be drafted to the emerging labor coalition once formed to formally request details regarding its selection process for appointing its representative.

Mr. Montagna indicated that staff would be returning with a draft transmittal to City Council and draft Administrative Code changes reflective of the Board's actions at this meeting.

8. HARDSHIP APPLICATIONS

A motion was made by Maggie Whelan, seconded by Bill Stein, approving full hardship withdrawals in Case Nos. 06-16, 06-17, 06-18, and 06-19; the motion was unanimously adopted.

The Board next considered Case No. 06-15. Ms. Smith noted that the applicant was not present. Ms. Whelan and Mr. Keith indicated that given the underlying reason for the application was a loss of income due to maternity leave, they were inclined to grant the request on that basis. Ms. Smith indicated that she would support approval of the application based on the income loss without necessarily wishing to set a precedent on the question of whether maternity leave could be considered an unforeseen event. Mr. Kraus questioned whether the Board could make such a decision without setting a precedent. **A motion was made by Maggie Whelan, seconded by Bill Stein, approving the application in Case No. 06-15; the application was approved by a vote of 5-1 (Canzano, Keith, Smith, Stein, and Whelan in favor, Kraus opposed).**

9. ELECTION OF OFFICERS

A motion was made by Bill Stein, seconded by Joya De Foor, nominating Maggie Whelan to be the next Chairperson of the Board; the motion was unanimously adopted. A motion was made by Shelley Smith, seconded by Joya De Foor, nominating Bill Stein as Vice-Chairperson; the motion was unanimously adopted.

10. DEFERRED COMPENSATION PLAN QUARTERLY REPORT

Rick Kramer, Vice President Governmental Accounts, and Usha Archer, Local Account Manager, both of Great-West Retirement Services, were present to review Plan statistics for the quarter ending 3/31/06. Ms. Archer briefly reviewed some of the statistical data included within the report, highlighting the net cash flow for several of the Plan's investment options. Specifically, she indicated that the Hartford General Account had experienced a substantial net outflow while the Washington Mutual Liquid Account had seen an equivalent inflow, suggesting that participants may be shifting funds to take advantage of the interest rate differentials.

Ms. Smith expressed appreciation for new charts showing the allocation of Plan assets. Ms. Whelan asked that on the page describing group meetings, future reports include the number of individuals enrolled as a result of those meetings.

11. REQUESTS FOR FUTURE AGENDA ITEMS

None.

12. NEXT MEETING DATE – JULY 18, 2006

12. ADJOURNMENT

The meeting adjourned at 11:30 a.m.

* Minutes prepared by staff member Steven Montagna