

**CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION**

ADOPTED MINUTES
SPECIAL MEETING OF JULY 19, 2022
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:

Thomas Moutes, Chairperson
Raymond Ciranna, Vice-Chairperson
Robert Schoonover, First Provisional Chair
Neil Guglielmo, Second Provisional Chair
Dana H. Brown
Baldemar J. Sandoval
Jeremy Wolfson

Not Present:

Joshua Geller, Third Provisional Chair
Linda P. Le

PERSONNEL DEPARTMENT STAFF

Paul Makowski, Chief Management Analyst
Daniel Powell, Senior Personnel Analyst II
Mindy Lam, Benefits Analyst
Eric Lan, Benefits Analyst

OFFICE OF THE CITY ATTORNEY

Charles Hong, Deputy City Attorney IV

Voya Financial

Deirdre Jones, Vice President, Strategic Relationship Management
Kelly Montgomery, Client Relationship Manager
Drew Russell, Director of Strategic Initiatives
La Tanya Harris, Registered Representative

MERCER INVESTMENT CONSULTING

Devon Muir, Principal
Ana Tom-Chow, Associate

SEGAL CONSULTING

Wendy Carter, Vice-President

1. CALL TO ORDER

Mr. Moutes called the meeting to order at 9:03 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Board Action:

A motion was made by Mr. Wolfson and seconded by Ms. Brown, to approve minutes of the June 29, 2022 special meeting of the Board; the motion was unanimously adopted by the Board.

4. BOARD REPORT 22-39: DETERMINATION REGARDING TELECONFERENCING OPTION FOR BOARD MEETINGS PURSUANT TO ASSEMBLY BILL 361

Board Member Comments/Questions & Responses:

There were no comments/questions from the Board.

Board Action:

A motion was made by Mr. Ciranna and seconded by Mr. Guglielmo, that the Board adopt the attached Resolution and find, pursuant to Section 54953(e)(1)(B)-(C) of the California Government Code, as amended by Assembly Bill (AB) 361, that due to the ongoing COVID-19 State of Emergency (COVID Emergency) proclaimed by the Governor on March 4, 2020, conducting Board meetings in person without continuing to provide a teleconference and/or videoconference option for the Board members and the public, would present imminent risks to the health or safety of attendees; the motion was unanimously adopted by the Board.

5. BOARD REPORT 22-40: DCP MATCH CONSIDERATIONS

Presentation Highlights:

Mr. Powell introduced the report and provided the following highlights:

- Staff received an inquiry from the City Administrative Office (CAO) Employee Relations Division regarding the possibility of the City offering an employer match for the Deferred Compensation Plan.
- A fundamental decision in implementing the match is choosing the match structure of either a 457(b) or 401(a) vehicle.
- Negative implications of contributing the match funds to a 457(b) plan would be the following:
 - Matching contributions would contribute toward the annual 457(b) contribution limits, lessening participants' ability to reduce their taxable earnings.
 - Matching contributions would be considered deferred compensation and the City may be required to pay FICA taxes.
 - The City may be subject to special GASB reporting requirements.
- Benefits of a 401(a) for match funds are the following:
 - Employees could be permitted to make additional after-tax contributions, increasing retirement savings.
 - City would have greater flexibility to implement a vesting schedule to incentivize employee retention.
- Downsides to the 401(a) for match funds are the following:

- As a new vehicle for the DCP, implementing a 401(1) would require the adoption of a new secondary plan document and a new secondary trust document.
- Contributions to the 401(a) would count towards the IRC 415(c) contribution limit that may impact after-tax pension system contributions.
- An employer match may provide a significant incentive for participants to join the DCP, with the possibility of also implementing automatic enrollment with an automatic escalation feature to ensure participant contributions gradually increase over time.
- Implementing a match would require an amendment to the DCP Plan Document or the creation of a new Plan Document, an amendment of the Administrative Code to grant the Board the authority to administer the match program, negotiation of costs with the third-party administrator, programming in the City's payroll system, and robust testing to ensure accuracy of the system.
- The match program would create new responsibilities for staff and it is unclear what the administrative impact would be to monitor and audit match contributions, possibly requiring additional staffing resources.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked if the CAO's Employee Relations Division had provided additional context for their request. Mr. Powell stated that they are only looking for general information about the feasibility of a match program.

Mr. Guglielmo noted that the County of Los Angeles' retirement system, LACERA, also has 457(b) and 401(a) match programs with 4% to each, utilizing Empower as their third-party administrator (TPA) and recommended LACERA as a resource for staff to understand program structure and tax implications. Mr. Powell thanked Mr. Guglielmo for the suggestion and stated that the County of Los Angeles is part of the peer network that the DCP partners with regularly.

Mr. Moutes indicated that revising the 457(b) to incorporate the match program appears to be more simple than adopting a new 401(a), and asked about a reasonable time frame to implement a 401(a). Mr. Powell stated that implementing the 401(a) plan with the requirements would likely take approximately 2 years.

Mr. Wolfson asked if the implementation of a 401(a) would replace or be in addition to the current 457(b). Mr. Powell stated that the 401(a) would be in addition to the current 457(b) plan. Mr. Wolfson also asked if Voya provided fee estimates for administering multiple plans. Mr. Powell indicated that Voya as the TPA would only charge a one-time administration fee to set up the plan.

Mr. Moutes noted that the DCP is fully funded by participants, but additional costs to implement a match program would not benefit all participants, notably those who are retired, and asked if the Board should consider requesting a cost reimbursement from the City. Mr. Hong noted that he and staff would need to follow up and report back to the Board with additional information.

Mr. Schoonover noted that the County's match program was based on a limit of a flat dollar amount that would last eight to nine months in the fiscal year before reaching its limit, causing members to also stop their contributions until the match program restarted in the fiscal year. Mr. Powell asked if the County still continues the practice. Mr. Schoonover stated that it is more well-funded but he is unsure if it is fully funded.

Mr. Moutes indicated that a key area of discussion will be with the Controller's Office and the division of responsibilities for the administration and monitoring of match contributions. Mr. Guglielmo agreed and noted ongoing issues with the division of responsibilities between LACERS and the Controller's Office.

Mr. Guglielmo thanked staff for the detail and information provided in the report and stated that the match program is worth researching but the costs should be borne by the City as there are members that would not benefit from the program. He also noted that auto-enrollment is a good idea to implement with or without the match program.

Mr. Powell stated that staff wanted to provide an overview of the process and indicate to the Board that the program would shift the DCP's strategic initiatives and occupy staff's time.

Mr. Ciranna suggested that a matrix outlining the differences between the two options would be helpful for the Board to clearly understand each option's limitations and benefits.

6. BOARD REPORT 22-41: DCP PROJECTS & ACTIVITIES REPORT FOR JUNE 2022

Presentation Highlights:

Mr. Powell introduced the report and provided the following highlights:

- DCP staff is working with Los Angeles Fire and Police Pensions (LAFPP) staff to develop the ability to process service purchases via ACH and will implement it in the near future.
- The Plan Governance and Administrative Issues Committee will be scheduling a meeting in the next month.
- A bulletin for the Senior Benefits Analyst II position was posted.
- DCP staff received one bid for the executive recruitment for the DC Plan Manager and staff will provide an update at the next meeting.

Board Member Comments/Questions & Responses:

Mr. Guglielmo noted that Los Angeles City Employees' Retirement System (LACERS) staff also reached out to DCP staff with interest in developing the ability to process service purchases via ACH. Mr. Powell noted that the ACH ability is a new feature and that required additional programming changes, but staff will coordinate with LACERS staff to determine feasibility.

Mr. Ciranna asked if there are any trends in the number of automated RMD notifications sent to participants. Mr. Powell indicated that staff will follow up with Voya and update the Board.

7. ANNUAL UPDATE ON DEFINED CONTRIBUTION TRENDS, PLAN DESIGN, AND REGULATORY REVIEW

Mercer Presentation Highlights:

Mr. Muir presented the report and provided the following highlights:

- Page 6 – Class action lawsuits target reasonableness of fees, diversity of funds, appropriateness and performance of funds offered, and plan administration.
- Page 7 – SECURE Act 2.0 shows a trend towards no bipartisanship as it was recently passed by the House. A version of the act appears to have support in the Senate as well. Features that impact 457 plans include:
 - Higher catch-up contributions for older works.
 - Potential for matching on Roth contributions.
 - Ability to roll over from a Roth IRA to a 457 plan.
- Page 11 – The Department of Labor has shown concern about fiduciaries exposing participants to cryptocurrency investments and will continue to investigate ERISA duties of prudence and loyalty.
- Page 12 – SECURE Act 1.0 clarified how insurance products can be adopted, leading to more guaranteed income solutions in DC plans, with clear steps to meet fiduciary responsibility.
- Page 13 – Target date funds have been creating allocations to insurance products with a lifetime spend-down phase for participants.
- Page 16 – Insurance premiums have seen a 40% increase.
- Page 18 – The DCP offers the major investment options aligned with the industry with the main difference being that only 27% of plans offer target-risk funds as the DCP does.
- Page 19 – The DCP offers Mutual Funds, Separate Accounts, and an increasing amount of Investment Trusts due to its lower fees.
- Page 20 – The average account balance compared to the survey sample is very positive.
- Page 22 – participation rates and deferral rates are in alignment with the survey sample.
- Page 24 – The DCP has a higher percentage of participants with outstanding loans and with average outstanding loan balance.
- Page 25 – The DCP currently does not offer fiduciary financial advice.

Segal Presentation Highlights:

Ms. Carter presented the report and provided the following highlights:

- Page 2 – NAGDCA’s goal is to promote savings and preserve unique public sector DC plan features.
- Page 3 – NAGDCA’s focus on administrative efficiency by permitting non-spousal beneficiaries to roll assets to other plans.
 - There is a push to eliminate the “first day of the month” rule, but will be unlikely to be passed this year.
- Page 4 – NAGDCA is encouraging enhanced distribution choice by allowing qualifying charitable distributions.

- Page 5 – NAGDCA would like to preserve the diverse public sector DC plan features by not imposing “rothification,” protecting distribution choice, and retaining the special catch-up feature.

Board Member Comments/Questions & Responses:

Mr. Moutes noted that the extension of the required minimum distributions (RMD) and the allowance for Roth contributions may positively impact income-related monthly adjustments (IRMA) as the receipt of RMDs can potentially raise IRMAs as well. Mr. Moutes indicated that additional education in this area might benefit the DCP’s participants.

Mr. Wolfson asked if other DC plans with target-date plans are incorporating diverse income solutions. Mr. Muir noted that there is a general trend that DC plans have become more central compared to defined benefit plans.

Mr. Ciranna stated that the Board has discussed target-date versus target-risk funds and recommended the Investments Committee reevaluate to ensure the Board still affirms that strategy. Mr. Ciranna also noted the opportunity to offer real estate/REITS investments as a topic for the Investments Committee to discuss.

Mr. Ciranna asked if there are private market strategies available to the DCP. Mr. Muir indicated that they are newer, have higher fees, and potentially have greater risk as early adopters. Mr. Ciranna asked if any other major plans have researched private equity. Mr. Muir stated that, to his knowledge, no public entities have utilized private equity, but private entities have. Mr. Moutes stated that an outstanding question of private equity is the DCP’s access to the top 25% of funds.

Mr. Ciranna indicated that it is important to be present at the NAGDCA conference and be informed of the current legislation in order to encourage Council to support particular bills. Mr. Moutes also noted his support.

8. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Moutes requested a future report from the staff regarding the possibility of City reimbursement for the costs of implementing a match program.

9. NEXT MEETING DATE

A regular meeting was noted for August 16, 2022, at 9:00 a.m.

10. ADJOURNMENT

The meeting was adjourned at 10:57 a.m.

Minutes prepared by staff member Eric Lan.