

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING OF OCTOBER 21, 2008 – 9:00 A.M.  
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

**Present:**

Eugene K. Canzano, Chairperson  
Bill Stein, Vice-Chairperson  
Sangeeta Bhatia  
Richard Kraus  
Kurt Stabel  
Margaret Whelan

Staff:

Personnel: Maryanne Keehn  
Steven Montagna  
Natasha Zuvich  
Ashley Stracke

City Attorney: Richard Bobb

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:05 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Richard Kraus requested that in the fifth paragraph of the second page, the minutes reflect that Vanguard was making adjustments to their strategy since the Total Bond Market Index Fund's under-performance in 2002. Mr. Kraus also requested that the phrase "Content Maturity Treasury" in the first paragraph of the fourth page be corrected to say "Constant Maturity Treasury." Steven Montagna indicated that he would make the corrections.

4. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Susan A. Dalton, Principal with Mercer Investment Consulting ("Mercer"), was present to discuss investment performance for the City's investment options for the quarter ending

06/30/08. Ms. Dalton began with a brief overview of some of the economic and market events which occurred during the second quarter. She indicated that Gross Domestic Product had grown at 1.9% and that the labor market had remained weak and inflation had risen sharply. She indicated that domestic and international equity markets had fallen along with fixed income markets.

She next indicated that the City's Plan had a broad array of investments that incorporated the best practices recommended by Mercer including a mix of passive and active investments, asset allocation funds and a self-directed brokerage window. She indicated that of the Plan's core investment options, three had exhibited unsatisfactory performance and were presently on monitor status.

Ms. Dalton first reviewed several issues which had occurred past the review period and which involved the City's savings options. She stated that Washington Mutual had been acquired by JPMorgan Chase on September 25, 2008, a matter which was previously reviewed with the Board at its recent special meeting. She indicated that the Galliard Stable Value Fund had begun a transition process to a new separate account stable value structure, and indicated that these funds would be eventually transitioned to a new combined stable value structure for which the City's Plan was presently soliciting proposals.

With respect to the Hartford General Account, Ms. Dalton indicated that Hartford Life Insurance had suffered some stock losses as a result of investor fears about the health of insurance companies generally, but that the rating agencies S&P and Fitch had both reaffirmed their AA rating on the firm and that Hartford had recently obtained a \$2.5 billion cash infusion to shore up its balance sheet. She stated that Hartford had encountered difficulties in making its transition to a separate account structure but in any event would still be able to transition its assets to the new stable value manager next year. She indicated that Hartford had decided not to submit a proposal and compete for the new stable value RFP.

Ms. Dalton next indicated the Plan's average account balance as being \$70,239, with the median balance being \$32,344. She reviewed the overall composition of Plan assets and stated that overall investment management expenses had fallen by 7 basis points during the quarter due to the elimination of some of the Plan's actively run funds. She further stated that the Plan's overall expense ratio of 42 was roughly half of the average of 81 found in other plans. She noted that one of the fund's investment managers, PIMCO, had indicated that it was increasing its expense ratio from 43 to 46 basis points in October 2008.

Reviewing the Plan's under-performing funds, she indicated that the Hartford Stock Fund had been hurt by its overweight position in financials and that the Hartford Advisers Fund had been similarly affected since the equity component of the latter was the same strategy/management for the Stock Fund. She indicated that Lazard had similarly under-performed over longer periods but that subsequent to the end of the

second quarter its investment performance had been improving as its investment strategy appeared to be coming back into style.

Mr. Canzano noted the strong performance of the Hartford Capital Appreciation Fund as well as Growth Fund of America. Mr. Kraus asked why there was disparity between the benchmark used for Galliard and Hartford funds and the benchmark criteria used in the recent Stable Value RFP. Ms. Dalton indicated that the Hartford General Account was a unique vehicle and had a different duration from the stable value fund. Mr. Montagna indicated that future performance reviews could include the new benchmarks as well as the old for the remainder of the time that the Plan maintained the current products. Mr. Canzano indicated that he appreciated the comments from the consultant addressing significant events which had occurred after the end of the second quarter.

## 5. GREAT-WEST QUARTERLY PLAN REVIEW

Usha Archer, Regional Manager, Rick Kramer, Director of Government Operations, and Gary Robison, Local Manager, all with Great-West Retirement Services, were present to provide the Great-West quarterly review. Ms. Archer indicated that at the request of Board member Maggie Whelan Great-West had prepared more current activity data to reflect some of what had been occurring with participants in reaction to the extraordinary events of recent weeks.

She began by noting the decline in Plan assets from \$2.67 billion on July 1<sup>st</sup> to \$2.36 billion as of October 7<sup>th</sup>. She indicated that contributions to the Plan had surprisingly increased in the second quarter by 15.5%. With respect to movement within Plan assets, she stated that the biggest increase occurred with Washington Mutual despite its takeover by JPMorgan and that the Hartford General Account had lost assets as unfavorable publicity regarding the firm had emerged. She noted further that despite the increase in total assets in the FDIC-insured option, the total number of participants investing in that option had fallen.

Reviewing Plan contact information, she noted that web log-ins, inquiries and account changes had all risen, although notably none represented peak activity over the prior 12-month period. In response to a question from the Board, she clarified that fund-to-fund transfers were counted separately from account balance inquiries. She noted increases in calls to the Plan's toll-free line, but stated that Great-West had taken several steps to address an increase in call volume occurring across its client base. She noted that the firm has protocols for pulling in staff from other operations to support the phone lines and had recently added more capacity on those lines. She indicated that during the week of October 6<sup>th</sup>, average talk times had increased by one minute per call and represented a 118% increase over the same date the prior year.

Ms. Archer next indicated that, having provided this more current information, she would welcome any questions regarding the prior quarter's report. Mr. Stein indicated he appreciated being provided more current data. Ms. Whelan indicated she had requested this updated information and she was surprised at some of the results but

that she had felt it was important to be looking at how participants were reacting to current market events. Mr. Robison indicated that although some participants were certainly making changes to their accounts in reaction to recent volatility, Great-West's local representatives encouraged participants to think long-term and focus more on their asset allocation strategies and risk tolerance more generally.

Mr. Kraus asked for an explanation of the fluctuation in the Plan's Forfeiture Account, and Ms. Zuvich indicated this was a result of two quarterly reimbursements being processed in one quarter. Mr. Canzano asked if changes in loan activity had been noted, and Mr. Robison replied that he believed since introduction of the two-loan policy this activity had increased. Mr. Montagna indicated that future monthly staff reports could include loan activity reviews.

## 6. BOARD REPORT 08-35: CONSULTING SERVICES RFP

Mr. Montagna indicated staff reviewed all responses from the Consulting Services RFP and was recommending the current incumbent, Mercer Investment Consulting, as the provider for each of the three consulting fields: Plan Administration, Investments, and Communication. He indicated that staff would have considered contracting with multiple providers, but only two responses were submitted and Mercer's responses were much stronger than the response submitted by ABG Consulting in all evaluation categories. Mr. Montagna commented that this was the first time performance exams had been utilized in an RFP process and that it was very successful.

Mr. Canzano indicated appreciation for the comments section within the RFP evaluation. Mr. Stein asked if staff had any indication as to why only two firms responded. Mr. Montagna replied that firms might not have found sufficient value in the contract when weighed against the City's general contracting requirements. He added that there may have been a perception as well that the City was not interested in changing vendors, although the structure of the RFP made clear that the opposite was possible. Ms. Whelan indicated that in the last RFP the Board did not see much response either. Ms. Bhatia asked whether the Plan advertised and Mr. Montagna responded affirmatively.

Mr. Stein followed by asking the term of the contract and whether there would be multiple contracts. Mr. Montagna replied that it would be best to have one contract, since the Plan would only be associating with one firm, and that the term of the contract would be three years. Mr. Canzano asked if the Board could extend the three-year contract. Mr. Montagna replied that the Board could do so only with Council approval. Mr. Kraus asked if Mercer's fees were similar to those found in the industry. Mr. Montagna replied that staff could only determine that with more responses or by contacting other entities to inquire about their rates. Ms. Keehn indicated that in the City's Benefits Consulting contract, Mercer's fees were about average.

Mr. Kraus asked about consulting fees in the City's retirement/pension plans. Ms. Bhatia replied that DWP issues an RFI and that the firm that is chosen is on retainer, as

opposed to hourly rate. Mr. Montagna stated that historically the Plan has charged the consultant on an hourly basis to better control costs, but that in the new contract the Quarterly Investment Reviews might be an exception. **A motion was made by Bill Stein, seconded by Eugene Canzano, to approve the selection of Mercer Investment Consulting to provide Deferred Compensation Plan Investments, Plan Administration, and Communications consulting, and to authorize the Board Chairperson to execute the necessary contract; the motion was unanimously adopted.**

#### 7. BOARD REPORT 08-36: SELF-DIRECTED BROKERAGE WINDOW COMMUNICATION MATERIALS

Mr. Montagna indicated that at the August 2008 Board meeting, the Board approved the expansion of trading within the Self-Directed Brokerage Option and asked staff to provide materials to all participants. He stated that staff followed by drafting a letter that was sent to all participants currently in the Self-Directed Brokerage Option (SDBO) and that the implementation of this expansion would occur in six weeks. Mr. Kraus asked if ETF's, Treasury bonds, and TIPS were included within the trading of individual securities. Mr. Montagna replied that they were.

Mr. Kraus asked if a participant could preview investment options in the SDBO before enrollment. Usha Archer of Great-West Retirement Services was present and responded that a participant could go to the Charles Schwab website to preview all available options, but that there was not a direct link from the Plan website to the Charles Schwab site. Ms. Archer further indicated Great-West will explore adding this link to the Great West website. Mr. Stabel next mentioned that he thought adding more cautionary language in the letter to SDBO participants would be desirable. He added that studies have shown that in trading stocks, participants are exposed to a greater potential for loss. The Board debated options for rewording the letter, ultimately electing certain wording changes to clarify certain portions.

Ms. Whelan asked if the letter could explain the fee structure in greater detail. Mr. Montagna replied that it could, that there is a \$50 annual fee and other fees are dependent upon which mutual funds are purchased, and all transaction fees vary depending on the funds chosen. **A motion was made by Margaret Whelan, seconded by Eugene Canzano, to approve the proposed implementation/communication materials for adding securities trading to the Plan's SDBO as amended; the motion was unanimously adopted.**

#### 8. BOARD REPORT 08-37: VANGUARD BOND FUND

Ms. Zuvich indicated that staff recommended that the Board decline an offer made by Vanguard to transfer assets from Vanguard Total Bond Market Index Fund #222 to Fund #337. Ms. Zuvich stated that Vanguard informed the Plan that since the Plan's invested balance had reached over \$100 million, it was now eligible for Fund #337,

which had an expense ratio 2 basis points lower than Fund #222, the Plan's current fund. She indicated that Mercer Investment Consulting had completed an analysis of the two funds and had found that although Fund #337 had a lower expense ratio than Fund #222, Fund #222 had historically outperformed Fund #337. She explained that this was due to factors such as Fund #337 having a smaller asset size and larger cash flows. Ms. Zuvich indicated that Mercer would continue to track the performance of both funds and would revisit the topic later, should Fund #337 outperform Fund #222 net of fees. **A motion was made by Richard Kraus, seconded by Margaret Whelan, to decline the offer made by Vanguard to transfer assets from Vanguard Total Bond Market Index Fund #222 to Vanguard Institutional Total Bond Market Index Fund #337 until it can be demonstrated that the performance net of fees of #337 outperforms the current fund; the motion was unanimously adopted.**

#### 9. BOARD REPORT 08-38: BUDGET STATUS QUARTER ENDING 06/30/08

Ms. Zuvich indicated that staff recommended that the Board approve the reimbursements for the quarter ending June 30, 2008. She stated that the Personnel Department, City Attorney, and DWP should be reimbursed \$104,051.73, \$22,578.33, and \$2,795.02 respectively, which included the salaries and indirect costs of the 4.8 positions servicing the plan. Mr. Kraus asked if, due to the current bear market, lower assets in the Plan would affect the Plan's revenue. Mr. Montagna indicated this might be true if declines persisted or worsened for years, however currently staff hoped this would not be the case. Mr. Canzano stated that although lower assets in the plan affected revenue flows, he believed that the Plan's trust fund would still be in excess of the target balance. Mr. Canzano stated that the Board would continue monitoring the budget on a quarterly basis. **A motion was made by Richard Kraus, seconded by Margaret Whelan, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$104,051.73; City Attorney for \$22,578.33; and DWP for \$2,795.02; the motion was unanimously adopted.**

#### 10. BOARD REPORT 08-39: ENROLLMENT INITIATIVE

Mr. Montagna indicated that staff was proposing a broad-based enrollment initiative designed to resemble auto enrollment. He stated that staff had been contemplating this project in recent weeks as a result of information that staff had come across at this year's NAGDCA conference as well as information brought forth in the performance exams for the consulting services RFP. Mr. Montagna stated that one objective was to make it easier for new employees to enroll in Deferred Compensation at the same time they make benefits elections at time of hire. He stated that a second objective was to put together a well-planned communication campaign for current employees that would be targeted for approximately one year from now, during National Save for Retirement Week, 2009. Mr. Kraus asked about the repercussions of having a single staff person spending 25% of her time on this project. Mr. Montagna replied that this project would require a significant commitment of staff time, yet out of all potential projects staff could be involved in, this project was viewed as having some of the greatest impact. He

stated that staff would be targeting Departments within the City which have traditionally had low rates of participation. Following this discussion, **a motion was made by Richard Kraus, seconded by Sangeeta Bhatia to approve staff's proposed broad-based enrollment initiative; the motion was unanimously adopted.**

#### 11. BOARD REPORT 08-40: NATIONAL SAVE FOR RETIREMENT WEEK

Ms. Zuvich explained that staff and Great West had been working together to develop an outreach campaign and communication materials for National Save for Retirement Week, October 19-25, 2008. She stated that staff had scheduled information tables at various departments throughout the week and employees were informed by posters, payroll stuffers, and a Citywide email. Mr. Kraus stated that he did not receive the email and asked whether the Citywide email was sent to all departments. Mr. Montagna explained that each department has gatekeepers who must then forward Citywide emails to employees. Mr. Stabel asked why the fire and police departments had high participation rates compared to other departments such as the Mayor's Office and the City Attorney. Mr. Montagna replied that it was more difficult to market the Plan to staff of elected officials due to the often limited and transitional nature of their employment. Shelley Smith, Assistant City Attorney with the City Attorney's Office, was present and indicated that she believed attorneys had higher participation rates but that support staff might have lower rates. **A motion was made by Sangeeta Bhatia, seconded by Bill Stein, to receive and file the staff report regarding the 2008 National Save For Retirement Week; the motion was unanimously adopted.**

#### 12. BOARD REPORT: 08-41 ACCRUED LEAVE DEFERRAL OPTION

Ms. Zuvich explained that in January of 2008 the Accrued Leave Deferral Option was implemented. She explained that the option allows participants to defer their vacation, 100% sick, and overtime pay into the Deferred Compensation Plan upon retirement. Ms. Zuvich indicated that staff had developed a system to track the participation and contribution rates. She stated that from January 2008 to September 2008 233 participants had used this option and had contributed \$4,600,154 in total.

Mr. Canzano asked what the process was in order to participate in the Accrued Leave Deferral Option. Ms. Zuvich explained that participants contact Great West or staff to complete the form and are eligible to contribute to the Plan from their accrued leave payments up to the applicable annual limit. Ms. Zuvich also stated that during the process, staff informs participants about their eligibility to participate in the Catch-Up provision. She also indicated that it takes approximately four to six weeks for the accrued leave to be paid to retiring employees.

Mr. Canzano asked if staff was aware of participants who decided to delay their retirement to the following year in order to add to their contributions. Ms. Zuvich explained that staff was aware of participants who would use this strategy.

Mr. Kraus asked what type of advertising staff had implemented to inform participants of the Accrued Leave Deferral Option. Ms. Zuvich stated that staff had provided information to the City's retirement plans that then distributed it as part of pre-retirement counseling. **A motion was made by Richard Kraus, seconded by Bill Stein, to receive and file staff report regarding the Accrued Leave Deferral Option; the motion was unanimously adopted.**

#### 13. BOARD REPORT 08-42: STAFF REPORT

Mr. Montagna gave a brief overview of events and projects staff was currently involved with. He stated that staff members Ashley Stracke of the Personnel Department and Vicky Williams of the City Attorney were creating a presentation regarding fiduciary responsibility. He indicated that the presentation was tentatively planned for the December 2008 Board meeting. In addition, Mr. Montagna indicated that staff member Ashley Stracke of the Personnel Department and Deputy City Attorney Richard Bobb were drafting Board By-laws to formalize policies and procedures of the Board.

Mr. Montagna next explained that staff had attended a City Council meeting on October 1, 2008 to discuss a report regarding how the current financial conditions had affected the Plan's investments. He stated that the Council had requested a follow up report within sixty days. **A motion was made by Bill Stein, seconded by Richard Kraus, to receive and file the submitted staff report; the motion was unanimously adopted.**

#### 14. BOARD REPORT 08-43: RETIREMENT PLAN INTER-PROGRAM EVENT

Mr. Montagna indicated that staff had been contemplating an inter-program event as a means to develop synergy between the various retirement programs within the City. He stated that the event would bring together staff who work with retirees in their different facets in order to help improve operations and customer service. Mr. Kraus asked if it was feasible to provide one centralized location where any City employee could research retirement, for example a website called retirement.lacity.org. Ms. Bhatia indicated that DWP Retirement is currently providing links to different websites. Mr. Canzano indicated he had also met with the Chief Information Officer about attempting to provide a "Total Retirement Picture" to provide more complete information to employees. He stated, however, that DWP is a few years away from that goal.

Mr. Canzano inquired if a meeting of this type would present any Brown Act issues. Mr. Bobb replied that staff can discuss with other staff members these issues; and this would not be considered a Board meeting. **A motion was then made by Richard Kraus, seconded by Bill Stein, to authorize staff to develop an inter-program event for LACERS, Fire/Police Pensions, DWP Retirement, and the Deferred Compensation Plan; the motion was unanimously adopted.**

#### 14. REQUEST FOR FUTURE AGENDA ITEMS

None.



15. NEXT MEETING DATE - NOVEMBER 18, 2008

16. ADJOURNMENT

A motion was made by Eugene Canzano, seconded by Bill Stein, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 11:17 a.m.

Minutes prepared by staff members Steven Montagna, Natasha Zuvich, and Ashley Stracke.