

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

PROPOSED MINUTES
SPECIAL MEETING OF SEPTEMBER 29, 2022
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:

Thomas Moutes, Chair
Joshua Geller, Third Provisional Chair
Linda P. Le
Joseph Salazar
Jeremy Wolfson

Not Present:

Robert Schoonover, First Provisional Chair
Neil Guglielmo, Second Provisional Chair
Dana H. Brown
Baldemar J. Sandoval

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

1. CALL TO ORDER

Mr. Moutes called the meeting to order at 10:45 a.m.

2. PUBLIC COMMENTS

There were no public comments. Mr. Moutes noted that agenda item 11 will be taken at the start of the meeting.

3. PLAN ADMINISTRATOR QUARTERLY REVIEW: JUNE 30, 2022

Presentation Highlights:

Ms. Jones and Mr. Russell presented the Plan Administrator Review for the quarter ending June 30, 2022 and provided the following highlights:

- Page 4 - Voya is experiencing a leadership change with Rod Martin entering the position of Executive Chairman and Heather Lavallee becoming the CEO-elect.
- Page 5 - The DCP had \$7.9 billion in assets at the end of the second quarter.
- Page 7 - Overall participant engagement with the DCP trended downward but participant calls increased during the quarter.
- Page 8 - 98.4% of participants had not made any investment election changes and were consistent with their DCP contributions.
- Page 12 - There was a positive net cash flow of \$26 million.
- Page 18 - The number of hardship in-service withdrawals increased, with the main reasons being eviction/foreclosure and illness or accident.
- Page 25 - Participants who used the financial wellness tool had a 9.4% savings rate.
- Page 32 - Voya anticipates hiring a new local retirement counselor soon.

Board Member Comments/Questions & Responses:

Mr. Moutes asked if Voya's leadership change will affect the City's relationship with Voya. Ms. Jones stated that there will be no impact on the City's relationship with Voya from the leadership change.

Mr. Wolfson asked if the DCP participant engagement activity tracks unique visits. Ms. Jones indicated that the chart on page seven includes data for unique visits. Mr. Salazar asked if there is data for the number of Voya app users versus website users. Ms. Jones noted that there is data on those using the Voya app and that Voya would provide that data as a follow-up.

Mr. Wolfson noted the increase in Schwab self-directed brokerage accounts and asked if there was a possibility of discussing fees. Mr. Moutes agreed and noted it as a future board meeting topic.

Mr. Wolfson asked how the DCP communication methods adapt to changing market conditions and whether participants show positive results from education and training. Mr. Russell stated that participants generally take safer actions but the DCP continues to provide ongoing education through Money Matters sessions and blog posts. Mr. Powell noted that ongoing education about risk exposure and personal risk tolerance helps to prepare participants for adverse market events.

Mr. Moutes noted that given that employees still continue to telecommute, the DCP will need to use techniques to reach participants outside of the office. Mr. Powell indicated that even prior to the pandemic, staff launched an online appointment system that would allow participants to receive support from a retirement counselor over the phone or via Zoom. Ms. Le stated that DWP would welcome the local retirement counselors to provide presentations remotely or in person for employees. Ms. Harris indicated that the counselors are available and have been providing these services.

4. MINUTES

Board Member Comments/Questions & Responses:

Mr. Moutes noted that page five of the minutes for the Board meeting on August 16, 2022 regarding the discussion of employer match funds should refer to the design and implementation of the employer match, not the actual funding of the program. Mr. Powell noted the changes would be made.

Mr. Moutes asked if there was a response from the Mayor's Office regarding the ED-3 exemption. Mr. Powell stated that staff had not received a response in time for this Board meeting, but has since been notified that the exemption was approved.

Board Action:

A motion was made by Mr. Wolfson and seconded by Ms. Le, to approve minutes of the August 16, 2022 regular Board meeting as amended and August 31, 2022 special Board meeting; the motion was unanimously adopted.

5. BOARD REPORT 22-48: DETERMINATION REGARDING TELECONFERENCING OPTION FOR BOARD MEETINGS PURSUANT TO ASSEMBLY BILL 361

Presentation Highlights:

Mr. Powell presented the report and provide the following highlights:

- Staff provided additional information on hybrid and in-person meetings as requested by the Board.
- In order to take public comments remotely, there needs to be at least one Board member teleconferencing into the meeting remotely.

Board Member Comments/Questions & Responses:

Mr. Moutes asked how frequently DCP staff are working in the office. Mr. Powell noted that staff are in the office one to two days each week. Mr. Moutes noted that any Board member that would like to discuss meeting in a different format could request an agenda item. Mr. Wolfson asked whether the Brown Act Requirements apply under a hybrid meeting model with AB 361 approval. Mr. Hong stated that the hybrid meeting provisions under AB 361 are applicable in lieu of Brown Act Requirements and will last until the state's emergency order is lifted.

Board Action:

A motion was made by Mr. Wolfson and seconded by Mr. Salazar, 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.

6. BOARD REPORT 22-49: ELECTION OF OFFICER – VICE-CHAIRPERSON VACANCY

Presentation Highlights:

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

- Prior Board member Ray Ciranna held the position of Vice-Chair. Due to his recent retirement, the position of Vice-Chair is now vacant. Per the Board's Bylaws, the Board must hold an election for this officer position.

Board Member Comments/Questions & Responses:

Mr. Moutes recommended that the Board defer this item until more Board members are present. Mr. Wolfson noted that this item should be taken with as many members as possible in order to nominate and vote. The Board agreed to defer this agenda item.

7. BOARD REPORT 22-50: DCP 2021 ANNUAL REPORT

Presentation Highlights:

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

- Staff prepared an annual report reviewing planned metrics, investment performance, communications campaigns, and other data about the DCP.
- The annual report will be posted to LA457.com and will be shared with department heads and City leadership.

Board Member Comments/Questions & Responses:

Mr. Moutes thanked staff for their work in continuously improving the DCP. Mr. Wolfson stated that the report is excellent.

Board Action:

A motion was made by Mr. Salazar and seconded by Mr. Wolfson, that the Board approve the 2021 Deferred Compensation Plan Annual Report; the motion was unanimously adopted.

8. BOARD REPORT 22-51: PARTICIPANT ENGAGEMENT GOALS AND STRATEGY

Presentation Highlights:

Mr. Lan and Mr. Russell introduced the report and provided the following highlights:

- Staff implemented the new methodological process previously approved by the Board to determine new goals that would continue to advance the DCP's participant objectives.
- The participation goal will be to increase the participation rate of those hired with less than three years of service, specifically focusing on those hired in 2022 by creating targeted communications and outreach to departments and labor organizations.
- The contributions goal will be to convert active participants contributing as a dollar amount to percent-of-pay contributions.
- The asset retention goal will be to reduce the rate of separated participants initiating an outgoing rollover by specifically targeting those separating from service in 2023.

- The distribution goal will be to highlight installment distributions and increase participants taking installment distributions by 3% compared to the same population in 2022.
- Staff prepared a 2023 Communications Calendar to organize and streamline various communications projects.

Board Member Comments/Questions & Responses:

Mr. Moutes asked for clarification on whether the active participants contributing as a dollar amount but are reaching their contribution limit will be included in the outreach. Mr. Lan stated that staff will be focusing on those not reaching their contribution limits since the percent-of-pay feature benefits the participants by increasing their contributions as their pay increases.

Board Action:

A motion was made by Ms. Le and seconded by Mr. Wolfson, that the Board approve: (a) the Deferred Compensation Plan Participant Engagement Goals and Strategies for 2023, and (b) the proposed Communications Calendar for 2023; the motion was unanimously adopted.

9. BOARD REPORT 22-52: DC PLAN MANAGER RECRUITMENT

Presentation Highlights:

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

- Staff worked with the Personnel Department’s Executive Recruitment Team to issue a task order solicitation (TOS) for the three recruitment firms that are contracted by the Personnel Department.
- The initial TOS only yielded one response. Staff issued an amended TOS that yielded responses from Partners in Diversity and the Energists.
- Attachment B shows the TOS evaluation criteria graded on a 100-point scale.
- Capability and Availability of the project teams:
 - Both firms were rated as “exceeds expectations.”
- Experience and Performance:
 - The Energists received a “below requirements” score due to their lack of provided information related to past performance with projects of similar scope.
 - Partners in Diversity received a “satisfactory requirements” score due to their listed experience filling senior-level positions with other public agencies.
- Qualifications:
 - Energists received a “minimum requirements” score due to their lack of provided information relating to their experience while noting that the supporting staff has experience with benefits administration.
 - Partners in Diversity received a “exceeds requirements” score due to the proposed project manager’s 20 years of experience in national search and sourcing efforts.
- Cost Effectiveness and Billing Rates:
 - Energists received a “satisfactory requirements” score due to the placement fee of 30% of the selected candidate’s first year salary.

- Partners in Diversity received a “exceeds requirements” score due to a lower fee of 23% of the selected candidate’s first year salary.
- Both firms have contracts with the Personnel Department that require a new placement process if candidates do not retain employment for one full calendar year.

Board Member Comments/Questions & Responses:

Ms. Le asked if staff would be able to retain both firms in order to increase the candidate pool. Mr. Powell stated that there would not be any prohibitions to retaining both firms but that it might result in a confusing process.

Mr. Moutes asked what the fee would be if no viable candidates were identified. Mr. Lan noted that Energist requires an upfront fee of 33% while Partners in Diversity does not require payment until a candidate is hired.

Mr. Wolfson inquired about the reason for very few firms bidding on the contract. Mr. Powell indicated that the TOS was only released to the three firms on the Personnel Department bench. Mr. Moutes asked what firm LAFPP uses for its executive recruitment searches. Mr. Salazar stated that LAFPP recently contracted with EFL Associates.

Mr. Wolfson stated he is unfamiliar with either of the firms that bid on the TOS and noted the challenge of finding the right candidate in as short of a timeline as possible. Mr. Moutes suggested that staff could potentially reach out to EFL Associates as well.

Mr. Geller indicated that staff’s use of the Personnel Department’s bench of recruitment firms was aimed to expedite the process and asked how a change of firms would result in a candidate pool different than what the bidding firms could provide. Mr. Moutes stated that the two firms do not appear to have any experience with pension systems or defined contribution plans and thus might not know how to reach the ideal candidate pool. Mr. Powell noted that staff’s evaluation process did not have to result in a selection, but still recommended a selection, determining that staff and the ad hoc committee would be able to provide necessary guidance to the selected firm.

Mr. Salazar indicated his support, provided that the Board would be able to provide Partners in Diversity with specific instructions on trade publication advertisements and direction in the search process. Mr. Moutes agreed and suggested the ad hoc committee be available to provide that direction.

Board Action:

A motion was made by Mr. Salazar and seconded by Mr. Wolfson, that the Board approve the selection of Partners in Diversity’s bid for the Defined Contribution Plan Manager recruitment opportunity; the motion was unanimously adopted.

10. BOARD REPORT 22-53: 2023 DCP RESOURCE REVIEW

Presentation Highlights:

Ms. Lam introduced the report and provided the following highlights:

- The Plan Governance & Administrative Issues Committee recommended the following changes to the Reserve Fund assumptions:
 - DCP Asset Growth rate decreased from 6.0% to 5.5%.
 - Net Enrollment Growth Rate remained the same at 3.0%.
 - Annual Expenses Increase Factor remained the same at 3.0%.
 - Special Rates Increase Factor for Personnel and City Attorney remained the same at 91% and 93%, respectively.
 - Stable Value interest Rate remained the same at 2%.
 - Participant Fees basis point charge and annual dollar cap remained unchanged at .09% and \$115, respectively.
- The Board has established a desire to gradually decrease the DCP surplus but there is no recommended action until after the payroll conversion is complete.

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

Board Action:

A motion was made by Mr. Salazar and seconded by Mr. Wolfson, that the Board adopts the following assumptions for use in projecting future Deferred Compensation Plan Reserve Fund balances: 1) DCP Assets Growth Rate - 5.5%; 2) Net Participation Growth Rate - 3%; 3) Annual Administrative Expenses Growth Rate - 3%; 4) Special Rates Increase Factor: Personnel - 91%; 5) Special Rates Increase Factor: City Attorney - 93%; 6) Stable Value Fund Average Rate of Return - 2%; 7) Participant Fees: Annual Basis Point Charge - 0.09%; 8) Participant Fees: Annual Dollar Cap - \$115; the motion was unanimously adopted.

11. REPORT FROM THE CITY ATTORNEY’S OFFICE

Presentation Highlights:

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

- The DCP exists for the exclusive benefit of its participants and beneficiaries and is trusted to provide fiduciary due diligence over plan expenses and fees.
- There are two categories of incurred expenses: “settlor” or “plan” type expenses.
- Settlor-type expenses are incurred for the employer’s benefit and for services that the employer would incur in the normal course of business, and should not be borne by the plan.
- Liability for the expenses of implementing a match element is dependent on the design of the match program and the significance of the costs.
- A new 401(a) plan’s startup expenses would depend on the nature of the plan design with the possibility of having the City advance the funds in advance.

Board Member Comments/Questions & Responses:

Mr. Moutes stated that the Board should not incur costs for any pre-implementation expenses due to their fiduciary responsibility to its participants. Mr. Hong indicated that the Board will need additional details as the match program is proposed in order to determine the eligibility of DCP funds for its implementation.

Mr. Geller asked about the means by which the Board is able to receive attorney-client privileged advice from the City Attorney. Mr. Wolfson also asked about the means by which the Board would waive privilege in order to publicize the discussion. Mr. Powell noted that the current discussion was a high-level summary from the City Attorney providing a broad overview of the situation. Mr. Hong stated that the Board asked for only a reminder of its fiduciary responsibilities to the plan and how it might potentially respond to requests from the City. Mr. Moutes suggested that the Plan Governance and Administrative Issues Committee can further discuss the process of requesting City Attorney advice. Mr. Moutes also noted that if the Board would like to waive the attorney-client privilege, then it would need to vote to waive the privilege and share the information publicly.

Ms. Le stated that the match program does not universally impact all plan members and so the Board should consider how to attribute costs to only members that are impacted. Mr. Moutes agreed and noted that the information should be shared with the City so that the Board's fiduciary responsibility to all plan members is clearly understood. Mr. Moutes also indicated that staff should make the Board aware of any significant upcoming expenses or work assigned to staff, particularly because plan funding is solely from plan participants.

Mr. Powell stated that the implementation of the match in a 457 plan would result in further discussions of the use of plan funds, whereas the implementation of the match in a 401(a) plan would not allow for the use of 457 funds whatsoever

Mr. Moutes stated that if staff's time or resources are being used for the match program, the City would need to reimburse the DCP for those costs since the pre-implementation costs should not be assessed to plan participants.

Ms. Le asked whether the Board should weigh in on labor negotiations between the City and labor unions that might impact the DCP and other City retirement systems. Mr. Moutes suggested that it is not the Board's role to weigh in on policy decisions outside of the DCP.

12. BOARD REPORT 22-54: DCP PROJECTS & ACTIVITIES REPORT FOR AUGUST 2022

Presentation Highlights:

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

- ACH transfers between Voya and Los Angeles Fire and Police Pensions are currently being tested and will roll out in October.
- The Senior Benefits Analyst II position interviews are being scheduled.

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

13. REQUESTS FOR FUTURE AGENDA ITEMS

The Board requested updates on Schwab participant fees, in-person versus hybrid meeting models, and legal advice administration.

14. NEXT MEETING DATE

A regular meeting was noted for October 18, 2022, at 9:00 a.m.

15. ADJOURNMENT

The meeting was adjourned at 11:57 a.m.

Minutes prepared by staff member Eric Lan.