

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING AUGUST 18, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Michael Amerian, Vice-Chairperson
Cliff Cannon, First Provisional Chair
Thomas Moutes, Second Provisional Chair
Wendy G. Macy
Robert Schoonover
Don Thomas

Not Present:

Raymond Ciranna, Third Provisional Chair
Linda P. Le

Staff:

Personnel:	Alejandrina Basquez	Esther Chang
	Steven Montagna	Matthew Vong
	Alexandra Castillo	

City Attorney: Curt Kidder

1. CALL TO ORDER

John Mumma called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

Initially, there was no public comment. However, this item was re-opened after Item 9. Wendy Macy announced that after 26 years with the City, Alejandrina Basquez was leaving City service. Ms. Basquez stated she had been appointed as the new Director of Human Resources for the City of Long Beach. Mr. Mumma thanked Ms. Basquez for her service. Steven Montagna stated Ms. Basquez had provided tremendous support for the Deferred Compensation Plan, and was particularly instrumental in implementing the Auto-Enrollment Program. He stated Plan participants have benefitted and would continue to benefit from the work Ms. Basquez had done for the Plan.

3. MINUTES

A motion was made by Tom Moutes, seconded by Don Thomas, to approve the July 21, 2015 Regular Meeting minutes; the motion was unanimously adopted.

Michael Amerian and Cliff Cannon were not present for the vote on this item.

4. BOARD REPORT 15-40: INVESTMENT PROVIDER PRESENTATIONS AND QUARTERLY INVESTMENT REVIEW 06/30/2015

Esther Chang stated the Board's investment consultant, Mercer Investment Consulting ("Mercer"), provided performance reviews of the Plan's investment options on a quarterly basis. She indicated the Plan made several selections for its procurements and fund searches over the past year including investment manager procurements for the Plan's FDIC Insured Savings account as well as mutual fund searches for all passive and active managers for the core bond and equity options. She stated that during the search process there was a temporary suspension of presentations from these investment fund managers. She indicated that in accordance with the Master Procurements Calendar, staff wanted to move forward with reinstatement of these presentations and presented a tentative calendar for when the presentations would be given to the Board. She stated there were now 11 fund managers for the Plan. She stated the Board would have an opportunity to hear from each of the 11 investment fund managers over a span of 18 months, on a quarterly rotating basis. She stated the investment managers would present alongside Mercer, which would also be presenting its quarterly performance review. She stated the first fund manager presentation was scheduled for the November 2015 Board meeting.

A motion was made by Bob Schoonover, seconded by Ms. Macy, to approve staff's proposal for scheduling future investment provider presentations at Board meetings; the motion was unanimously adopted.

5. QUARTERLY INVESTMENT REVIEW

Michael Molino and Ana Tom-Chow of Mercer discussed the Plan's fund performance during the second quarter of 2015. Mr. Molino indicated the equity market was currently headed into the seventh year of a bull market following the 2007-2008 financial crisis. He indicated strong returns in the equity market with the S&P returning about 14% over the previous year and approximately 30% the year before that. He stated it was expected that performance would be a bit lower going forward. He stated Mercer believed the 30-year bull market and bond prices could reverse course and that interest rates were expected to increase in the future at a moderate rate. He stated the second quarter economic growth as measured by the GDP was 2.3% annualized, and unemployment over the years had fallen to a range in line with historical norms to between 5-6%. He stated that combined with rising wages and low energy prices, the economy has been provided a bit of ammunition to grow modestly. He indicated the Fed had signaled that they were likely to raise interest rates soon and that there was broad market consensus that they would raise interest rates by the end of 2015.

Mr. Molino stated global equity markets were relatively muted during the second quarter. He stated there was concern in Europe over Greece potentially defaulting and no longer using the Euro as currency. He indicated a major equity market selloff in China brought returns down and performance ended the quarter flat. He stated U.S. equity returns were flatter at around 0.1%. He noted there was more divergence between the

performance of growth stocks and value stocks. He stated performance was better internationally with developed European countries and noted the performance in equities for those countries was at 0.6% for the quarter. He stated the biggest surprise for the quarter was U.S. Treasury yields.

Ms. Tom-Chow reviewed the Plan's investment options. She reviewed the investment menu structure of the Plan, listing the core investment options and indicating current managers. Mr. Molino stated Mercer was comfortable with the structure of the City's Plan as it offered a diversified and streamlined set of options across most of the major asset classes. Mr. Moutes asked over what period of time Mercer would think it prudent to begin judging the new managers' performance outside of the quarterly updates. Mr. Molino stated one would typically like to review manager performance over a full market cycle, which is typically 3 to 5 years. He noted that it is important to ask questions based on the style of the investment manager, particularly if outperformance was expected. He noted that when there is deviation from expected performance, closer review may be required.

Ms. Tom-Chow continued by reviewing the performance of the Plan's funds. She stated the DCP Bond Fund had a loss of 1.6% for the quarter, but still outperformed the Barclay's Aggregate Bond Index. She discussed the performance of the risk-based funds, which either matched or outperformed their respective indexes during the quarter. She stated these funds have performed well on a long term basis, highlighting the Moderate Profile Portfolio Fund's outperformance by 10.6% over a 5 year period. She noted the Ultra-Aggressive Profile Portfolio Fund was also above double digit performance over the long term. Mr. Molino noted risk-based funds were becoming more popular with Plan participants. Ms. Tom-Chow stated the long term performance of the DCP Mid Cap Fund had performed well and tracked the index as expected. She stated the DCP Small Cap Stock fund had recorded one full quarter of performance under its new structure and outperformed by 0.4%.

Ms. Tom-Chow reviewed the Investment Expense Analysis and stated the "all-in" participant fees were 24 basis points on an annual basis, which was very low despite active fund components having been added to the Plan. Mr. Molino stated Mercer preferred to compare the expense ratio of the funds the Plan offers to universes of similar funds to see how competitive the fees were. He stated the fees the Plan's participants pay for their investment funds were significantly lower than institutional medians for similar asset classes. Mr. Montagna drew attention to the "all-in" expenses of the Plan and noted it consisted of a combination of the investment management expense along with the cost of the Third Party Administrator. He stated this was a key piece of information the City's Plan was looking to benchmark against other plans.

Mr. Molino completed Mercer's review by describing the newer components that were recently added to the performance report. Mr. Moutes asked whether more attribution analysis would be forthcoming in future quarterly reports being that the Plan had more actively managed funds. Mr. Molino pointed to the comments included in the report that summarize quarterly attribution information. Mr. Montagna noted that since more active

management had been incorporated into the Plan's fund line-up, the Plan would also keep an eye on the ability of these funds to provide value over their respective benchmarks.

6. BOARD REPORT 15-41: REQUEST FOR PROPOSAL FOR THIRD PARTY ADMINISTRATOR: COMMUNICATION/PLEDGE FORM

Mr. Montagna stated that at the previous month's meeting a development process was launched for the procurement of the Third Party Administrator contract. He indicated there were two action items returning from the July Board meeting being brought forward to the current meeting. He stated the first item included staff's proposed communications efforts, which entailed not only reaching out to Plan participants in order to inform them of the procurement process, but also soliciting feedback and obtaining an assessment of what was working for them, including their interests in different services that could be offered by the Plan. He stated staff would like to issue a participant survey modeled after a survey conducted by the Plan in 2008. He stated the proposed survey would not only act as an information gathering tool, but would also serve to inform participants of what was happening with the Plan and the reasons for it. He stated staff also intended to conduct focus groups, which would help provide unique perspectives. He indicated staff also proposed to use general media options, such as quarterly newsletters, e-mails, and website updates, to communicate to participants.

Mr. Montagna concluded by stating that the additional item included with the report was a pledge form, which was a document that had been used by the Board during prior procurement processes. He stated the form would emphasize objectivity and transparency during the search, thus making it evident that the process would be conducted in accordance with the Plan's Bylaws.

Mr. Thomas asked if participants were provided with any information regarding additional investment options that could potentially be made available by the Plan through the self-directed brokerage. Mr. Montagna stated that there was a range of topics that could be explored to obtain participant feedback on services/products that the Plan does not currently offer.

A motion was made by Mr. Cannon, seconded by Mr. Thomas, to approve staff's proposed communication plan for the 2015/2016 development process for the Deferred Compensation Plan's TPA procurement; the motion was unanimously adopted.

A second motion was made by Mr. Schoonover, seconded by Mr. Moutes, to approve a proposed Conflict-of-Interest & Ex-Party Communication Pledge form and its execution by Board members/City staff involved in the development process for this procurement; the motion was unanimously adopted.

7. BOARD REPORT 15-42: NATIONAL SAVE FOR RETIREMENT WEEK (NSFRW) 2015

Mr. Montagna presented the proposed components of the Plan's 2015 NSFRW Campaign. He stated staff wanted to reach out to the Plan's active and retired participants as well as entice non-participants to join the Plan. He stated staff would like to prepare modules of interactive web-based exercises with goals to increase engagement, raise awareness, and obtain new enrollments. He indicated the campaign would enable the Plan to ask that participants think about what opportunities or changes they would consider. He stated that retired participants would be asked what components of the Plan worked for them as well as what key decisions made a difference in their retirement security strategy. He stated staff would work with Segal Consultants to develop the campaign content. He indicated the general theme of the campaign would pertain to time travel. He stated active employees would participate in an exercise where they would look forward in time and describe their future retirement goals. Conversely, he stated retired participants would look back in time to review what really made a difference in achieving their retirement goals. He stated staff would also request the Mayor's signature on a letter to endorse and introduce the campaign. He stated staff would also analyze some target metrics to determine if the campaign produced measurable outcomes.

Mr. Mumma asked Mr. Montagna for his thoughts on the previous year's campaign. Mr. Montagna stated it was very successful and indicated the emphasis of the previous year's campaign was to encourage active participants to use the retirement income projection calculator. He indicated retired participants were also asked to complete a survey. He concluded by stating that the Plan hoped to achieve a larger response from the retired population compared to the previous year by making the survey a shorter and more visually engaging exercise.

A motion was made by Mr. Amerian, seconded by Ms. Macy, to approve staff's proposed promotional strategy for the 2015 National Save for Retirement Week campaign; the motion was unanimously adopted.

8. BOARD REPORT 15-43: AUTO ENROLLMENT PROGRAM (AEP) UPDATE

Ms. Chang stated staff had met with the City Controller's Office on August 3, 2015 to outline payroll system program priorities for the Employee Benefits Division. She stated the Controller's Office was assessing the Plan's request for payroll system programming and was in the process of identifying a completion date that would fit their schedule. She indicated that once the Controller's timeline was determined, the Plan could then approach DWP's payroll office to align those two timelines. She stated that on August 11, 2015, staff obtained approval from the City's Executive Employee Relations Committee (EERC) to begin discussions to implement the AEP provisions within different employee bargaining agreements. She stated that staff was currently coordinating a meeting with the Los Angeles Police Protective League. She concluded by stating the outline of the remaining AEP timeline was included with the report.

Mr. Mumma asked if there were any loopholes and/or strings attached in the instructions from the EERC to engage bargaining units. Mr. Montagna stated there were none and that the EERC was supportive of the initiative.

A motion was made by Mr. Schoonover, seconded by Mr. Amerian, to receive and file staff's report providing an update related to the implementation of the Deferred Compensation Plan AEP; the motion was unanimously adopted.

9. BOARD REPORT 15-44: PLAN PROJECTS & ACTIVITIES REPORT

Ms. Chang presented the monthly staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects. She stated the 2nd Quarter Newsletter was mailed on July 28th. She indicated staff had been working on ideas for NSFRW. She stated staff had internal discussions regarding communications related to the new law HR 2146, which she would discuss in more detail later in the report.

Ms. Chang stated staff continued to work on communicating the importance of updating beneficiary information. She indicated staff had created a template that an individual Board member could use to communicate to Plan participants. She indicated the In-Plan Roth Conversion feature was targeted to go live in September for Plan participants. She stated staff was working on the logistics of adding an optional feature on the participant website which would allow participants to better secure their account with an alphanumeric passcode, rather than the current numeric PIN.

Ms. Chang indicated staff continued to finalize agreements for services procured earlier in the year. She stated staff was updating metrics for Plan related items and departmental metrics. She indicated staff continued to meet and discuss questions related to the CAP rate. She stated the committee membership was updated effective July 20, 2015.

Ms. Chang provided an explanation of the new law (H.R. 2146) recently signed by President Obama that would go into effect in 2016. She stated the new law amended the Internal Revenue Code (IRC) to allow an additional exception to the 10% early withdrawal penalty on monies that are rolled into the Plan and subsequently distributed before the age of 59.5. She indicated this was particularly relevant to the City's sworn population that participated or may participate in the Deferred Retirement Option Program (DROP). She stated that currently DROP funds that have been rolled into the Plan may be subject to the 10% penalty if a participant chooses to withdraw the funds from the Plan account prior to age 59½. She indicated however that for sworn officers who participate in DROP and choose to rollover DROP funds to their Plan account, they have been able to take distributions from their Plan accounts without penalty if they exited DROP at age 50+ and requested a distribution at age 55+. Ms. Chang stated the new legislation would effectively allow any City sworn officer to take a distribution from

their DROP money source that was rolled into the Deferred Compensation Plan, if they exited DROP at age 50 and requested a distribution before age 59.5.

Ms. Chang stated staff was currently discussing how best to communicate this information to participants. Mr. Mumma asked Empower Retirement representatives if this new legislation had been communicated and explained to participants. La Tanya Harris from Empower Retirement stated that there had been a few questions from participants regarding the legislation. Lisa Tilley, National Accounts Director with Empower Retirement, stated an internal memo had been sent out to staff regarding the legislation.

A motion was made by Mr. Amerian seconded by Mr. Cannon, to receive and file staff's update on Plan projects and activities during July 2015; the motion was unanimously adopted.

10. CLOSED SESSION

Mr. Mumma stated the Board went into closed session to discuss a hardship withdrawal appeal, which was initially denied by Empower Retirement. He indicated the Board had discussed the issue at length with counsel and spoke with the appellant. He stated the board had voted unanimously 7- 0 to grant the hardship appeal. Mr. Curtis Kidder, the Board's counsel, confirmed the Board's final action.

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Mumma stated that quarterly statements were posted online, but were not e-mailed to participants. He suggested staff looked into providing those statements via e-mail.

12. FUTURE MEETING DATES – September 15, 2015

13. ADJOURNMENT

A motion was made by Mr. Amerian, seconded by Mr. Schoonover, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:14 a.m.*

Minutes prepared by staff member Matthew Vong.