

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING AUGUST 16, 2011 – 9:00 A.M.  
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

**Present:**

Eugene K. Canzano, Chairperson  
Clifford Cannon, Second Provisional Chair  
Tom Moutes, Third Provisional Chair  
Michael Amerian  
Sangeeta Bhatia  
Michael Perez  
Bob Schoonover  
Margaret Whelan

**Not Present:**

John R. Mumma, Vice-Chairperson

Staff:

Personnel: David Luther  
Steven Montagna  
Natasha Gameraoz  
Ashley Stracke

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:07 a.m.

2. PUBLIC COMMENTS

None. Mr. Canzano indicated that agenda items would be taken out of order.

3. BOARD REPORT 11-51: FUND CUSTODIAN REQUEST FOR PROPOSAL

Mr. Montagna stated that the Board had directed staff and the consultant to draft a Request For Proposal (RFP) for Fund Custodian services. He explained that a Fund Custodian would provide unitization services for separate account Plan assets and indicated that there was a high likelihood that the Plan would have investments that would require the services provided by a Fund Custodian.

Mr. Montagna indicated that most of the information requested in the RFP would already be in the Mercer Investment Consulting (Mercer) database. He indicated that the RFP stated that firms could either update their information in the database or enter their information if they had not previously provided it to Mercer. He stated that vendors would also have the option to provide written responses to the RFP.

Mr. Montagna indicated that once the information was received, the consultant would evaluate and recommend vendors based on the weighted criteria outlined in the RFP. He stated that staff recommended that the Board approve the RFP pending final review as to form by Board Counsel and the Personnel Department's Administrative Services Division.

Mr. Canzano asked if vendors preferred to respond online. Devon Muir, Principal Consultant with Mercer, stated that vendors generally preferred to submit their data electronically. Mr. Canzano asked how the information would be entered into the database. Mr. Muir stated that vendors would answer a web-based questionnaire that would be time-stamped. Mr. Montagna noted that the RFP clearly stated that respondents would only be evaluated on the criteria outlined in the RFP. Mr. Moutes asked how large the Fund Custodian universe was. Mr. Muir indicated that the universe included approximately seven to eight firms. **A motion was made by Tom Moutes, seconded by Michael Perez, to approve the Request for Proposal for Fund Custodian Services pending final review as to form by Board Counsel and the Personnel Department's Administrative Services Division; the motion was unanimously adopted.**

#### 4. BOARD REPORT 11-52: PLAN COMMUNICATIONS AND PARTICIPANT FOCUS GROUP VOLUNTEER POOL

Mr. Montagna stated that at the July 19, 2011 meeting, the Board directed staff to draft a proposal for developing a focus group volunteer pool. He stated that staff recommended developing a web-based application that would be advertised in the October 2011 quarterly newsletter. He explained that when participants log onto the website during the application period, a prompt would appear asking participants whether they would like to participate in the Plan's volunteer pool. Mr. Montagna stated that staff also recommended that focus group participants be provided with a modest incentive in the form of a \$5 gift card.

Mr. Canzano indicated that he believed the Plan should also reach out to participants who may not use the website, and asked if there could also be a way for participants to apply by completing a paper application. Mr. Montagna indicated that this was possible. Mr. Cannon asked if gift cards would only be provided when volunteer pool members participated in a focus group. Mr. Montagna confirmed. Mr. Cannon asked if it would be possible for members to receive multiple gift cards. Mr. Montagna indicated that while participants may be able to participate in multiple focus groups thereby receiving multiple gift cards, the goal was to have a volunteer pool of approximately 100 to 200 participants so that each focus group was comprised of different participants. **A motion was made**

**by Bob Schoonover, seconded by Cliff Cannon, to approve staff's proposal for soliciting Plan participant volunteers to serve on focus groups for Plan communication materials and other Plan administrative issues; the motion was unanimously adopted.**

5. BOARD REPORT 11-53: RETIREMENT INCOME CALCULATOR

Mr. Canzano indicated that he supported the idea of a retirement calculator that encompassed participants' defined benefit and defined contribution earnings. Mr. Montagna explained that the concept for the retirement calculator primarily resulted from conversations with employees regarding the new Roth savings option. He indicated that employees were often unaware of how much they would be making in retirement and were unsure of how much they should contribute in after-tax dollars. He stated that a calculator would help give participants a more accurate understanding of what their post-retirement earnings and expenses would be.

Mr. Montagna stated that Great-West Retirement Services (Great-West) had indicated they would be willing to partner with the City in exploring the feasibility of developing such a calculator. Mr. Perez indicated that he believed this would be a valuable tool for participants and Fire & Police Pensions (Pensions) members. He recommended broadening the research and development phase to include at least two systems, one of which would be Pensions. He explained that given the complexity of Pensions, it may be more beneficial to work with that system first. He asked what the projected costs were for developing the calculator.

Mr. Montagna stated that staff recommended that the Board direct staff to develop the concept and come back to the Board with the anticipated costs before implementation. Ms. Whelan asked whether it would be more beneficial to first work with the least complicated system versus the most complicated system. Mr. Perez indicated that he believed that by incorporating the variables of the most complex system at the beginning of the project, the Plan could avoid costly and complicated adjustments to the calculator's underlying assumptions later on.

Ms. Bhatia stated that Water and Power Employees' Retirement Plan (WPERP) had already started working on a similar web-based application that did not include the employees' defined contribution assets. Ms. Whelan asked for the number of participants in each retirement system. Mr. Montagna stated that the Plan had approximately 15,000 LACERS participants, 7,000 Pensions participants, and 5,500 WPERP participants.

Mr. Moutes stated that over time LACERS had developed simple calculators and complex matrices to help members calculate their income in retirement. He asked if staff was proposing a simple calculator. Mr. Montagna confirmed and explained that staff saw the calculator as a communication tool and would like for it to remain simple to use so that participants would not feel overwhelmed. Mr. Moutes recommended that staff start with a meeting that included all three retirement systems to determine if there were

commonalities. Each retirement plan manager expressed interest in sending a representative to such a meeting. **A motion was made by Michael Perez, seconded by Sangeeta Bhatia, to direct staff to form a working group consisting of staff from the Personnel Department, Great-West Retirement Services, and a representative from each of the City's three retirement systems, for the purpose of developing a concept for an online calculator comparing pre- and post-retirement taxable income; the motion was unanimously adopted.**

6. BOARD REPORT 11-55: INVESTMENT MENU IMPLEMENTATION  
UPDATE/MARKET VOLATILITY & FUND CHANGES

Ms. Stracke began by stating that the Plan had been in the process of redesigning its core investment menu for the past several years. She indicated that the final stages of implementation would be completed in two phases. She stated that the first phase would include establishing the Deferred Compensation Plan (DCP) Bond and DCP Large-Cap Funds as well as migrating the Lazard Mid-Cap Fund into the Plan's passively managed Mid-Cap Fund, which the Board had approved at its last meeting. She indicated that no procurements were required for this phase, which was scheduled to take place during the first quarter of 2012.

Ms. Stracke continued by stating that the second phase would include establishing the DCP Mid-Cap, DCP Small-Cap, and DCP-International Funds. She indicated that the following procurements would need to take place before implementation: 1) Active Growth Mid-Cap Manager, 2) Active Value Mid-Cap Manager, 3) Active Growth Small-Cap Manager, 4) Active Value Small-Cap Manager, 5) Active Developed Markets International Manager, 6) Active Emerging Markets International Manager, and 7) Active Small-Cap Markets International Manager.

Ms. Stracke indicated that staff would be updating the Board on the procurement process on a monthly basis until the transition was completed. She stated that in order to make the process more efficient, one RFP for all investment mandates would be drafted and brought to the Board at the October 18, 2011 Board meeting. She noted that the transfer of all of the funds was tentatively scheduled for November 1, 2012, however, staff believed that this date would need to remain fluid given the size of the project and the inherent variables that would go along with the review and development process.

Ms. Stracke concluded by stating that the Board Chair had asked staff to report on whether the recent volatility in the investment markets would have an impact on the proposed timing of the planned fund changes. She stated that staff believed that given that the first phase was not scheduled to occur until the first quarter of 2012, staff did not see any basis for making changes to the proposed fund migration. She also added that given that the migrations would be occurring instantaneously and discontinued funds would be mapped to the same asset classes, staff did not see a basis for delaying changes based on market fluctuations.

Ms. Bhatia stated that she thought it would be prudent to receive feedback from Mercer concerning market volatility. Mr. Muir stated that Mercer supported staff's recommendation since the funds would not be transitioned to a different asset class. Eileen Kwei, Principal Consultant with Mercer, added that there would not be any time during the transition where participant assets would be in cash.

Mr. Canzano asked if all of the funds that were being mapped out would be available through the Self-Directed Brokerage Option (SDBO). He stated that if all of the funds were made available through the SDBO, participants would be given ample time to move their assets should they choose to maintain the same fund. Mr. Muir stated that the funds would be available. Mr. Montagna confirmed that all funds would be available through the SDBO.

Mr. Schoonover asked if Mercer had factored in dollar-cost averaging when it evaluated the overall performance of the Plan's funds. Mr. Muir stated that the data would be difficult to obtain since each participant would have bought and sold at different times. Mr. Montagna stated that there was research that showed that the largest predictor of a fund's performance was the selection of the asset class rather than the selection of an investment manager.

Ms. Bhatia asked if mapped assets would be impacted by the market when sold. Mr. Montagna explained that defined contribution plans were constantly opening and closing funds and that plan sponsors were unable to determine the potential opportunity costs of an action until after the transactions had taken place. Mr. Muir also explained that the market would be closed when the transfer of funds would take place.

Ms. Bhatia stated that the Plan needed to concentrate on communicating the investment menu changes to participants. She explained that several people had informed her that they were unaware of the upcoming changes to the investment menu. Ms. Bhatia also asked Board Counsel for information regarding the Board's role in the selection and monitoring of investment services. Mr. Kidder stated that he would report back on this. **A motion was made by Michael Perez, seconded by Margaret Whelan to receive and file information regarding implementation of pending changes to the Deferred Compensation Plan investment menu; the motion was unanimously adopted.**

## 7. MINUTES

**A motion was made by Sangeeta Bhatia, seconded by Tom Moutes, to adopt the July 19, 2011 minutes; the motion was unanimously adopted.**

## 8. HARDSHIP WITHDRAWAL APPEAL: CASE NO. 11-01

Ms. Gameroz stated that the applicant submitted a request to Great-West and was approved for the amount of \$2,588.80 (net) based on unreimbursed medical expenses. She stated that the applicant received these funds on July 19, 2011, however explained

that the applicant was appealing because she wanted an additional partial withdrawal of \$46,817.

Ms. Gameroz explained that the applicant had indicated that her financial emergency was due to a medical emergency which began in January 2010 that resulted in her being in intensive care until March 2010. She stated that the applicant had experienced a significant reduction in her income which was \$6,839 prior to the medical emergency and was now \$1,645. Ms. Gameroz stated that the applicant applied for a hardship withdrawal on three bases: 1) unreimbursed medical expenses, 2) mortgage arrearage, and 3) loss of income. She explained that Great-West denied withdrawal for the mortgage arrearage since the applicant had signed a forbearance agreement. In addition, she explained that Great-West also denied withdrawal due to the applicant's loss of income. Ms. Gameroz indicated that Great-West had an internal policy to not grant hardship withdrawals based on a loss of income in cases where the loss occurred over one year prior. She stated that Great-West's perspective was that participants should adjust their spending within that amount of time.

Ms. Gameroz stated that staff concurred with Great-West in regards to the denial of hardship withdrawal due to the applicant's mortgage arrearage since the applicant had signed a forbearance agreement. However, Ms. Gameroz indicated that staff did not concur with Great-West's denial of hardship withdrawal with regards to the applicant's loss of income. She explained that when hardship cases were processed in-house, staff would review records from over a one year time period. She also indicated that the Internal Revenue Service (IRS) did not provide guidance that discouraged hardship distribution approval for income loss that had occurred over one year prior to applying.

Ms. Gameroz stated that the applicant had depleted her savings and was unable to obtain a loan due to high debt-to-income ratios. She stated that staff was recommending approval for three months of the applicant's negative cash flow which would equate to approximately \$13,749. She indicated that she had applied for Disability Retirement with Pensions and indicated that the applicant expected to receive notification regarding this during this time period. Ms. Gameroz stated that staff would request that the Board approve the hardship withdrawal and allow staff to approve further withdrawal based on the applicant's stated income loss of \$84,862 should her Disability Retirement and/or loan modification not be resolved favorably or resolved within a three-month period.

Mr. Canzano stated that he supported staff's recommendation. Mr. Cannon asked if staff had reviewed Great-West's policies regarding hardships. Ms. Gameroz stated that staff had reviewed the policies before the transfer took place, however, the one-year policy was implemented more recently. Ms. Tilley explained that Great-West's position was that the one-year time period was a reasonable time period to consider something as unexpected or as an "unforeseeable emergency." Ms. Tilley stated that she would look into whether it was possible for Great-West to change that internal policy as it applied to the City. Mr. Cannon indicated that it may be beneficial to review other Great-West policies that were developed in lieu of IRS guidance. Ms. Tilley indicated that she would review this.

Mr. Cannon asked if the applicant was extended an invitation to come before the Board. Ms. Gameraoz stated that the applicant had been extended the invitation to come before the Board, however, she had been in and out of the hospital and was unable to attend and typically applicants did not appear if staff was recommending approval and the applicant concurred with the recommendation. Mr. Amerian stated that he believed that it was important to remain flexible with time frames when evaluating emergencies. **A motion was made by Michael Perez, seconded by Margaret Whelan, to approve a partial hardship withdrawal in the amount of \$13,749 (net) in Case No. 11-01, and authorize staff to approve additional amounts up to the applicant's documented income loss pending resolution of pending issues identified in the Case No. 11-01 report.** Mr. Moutes asked if Board Counsel could review the ability for the Plan to obtain outside legal counsel with an expertise in tax law. He indicated that he would like this to be a future agenda item. **The Motion was unanimously adopted.**

## 9. GREAT-WEST QUARTERLY REPORT

Regional Manager, Usha Archer, National Accounts Director, Lisa Tilley, and Regional Manager, Gary Robison all with Great-West, presented the second quarterly report. Starting on page 4, Ms. Tilley noted that there was a .7% increase in assets. She stated that a line item had been included showing the outstanding loan balance, which gave a more accurate representation of Plan assets once participants paid back those loans.

Referring to page 5, Ms. Tilley stated that there had not been much movement in assets compared with previous quarters. Referring to page 7, Ms. Tilley stated that the Plan added 263 participants and that the median account balance was increasing. She also indicated that there was an increase in contributing participants and a decrease in non-contributing participants.

Referring to page 9, Ms. Tilley stated that there was net growth in each of the profile funds and movement to the Stable Value Fund remained high. Ms. Tilley continued onto page 12, where she noted that overall Plan assets were well-diversified compared with other 457(b) plans.

Referring to page 16, Ms. Tilley indicated that there was an increase in the average account balance. She stated that while the majority of participants had account balances that were less than \$50,000, over 400 participants had account balances over \$500,000.

Continuing on to the topic of distributions, Ms. Tilley stated that most of the Plan's distributions were periodic payments. She indicated that for the calendar year of 2011, the rollovers out of the Plan had slowed compared to the previous year. She stated that new information had been included in the report with a summary of the top ten IRA firms participants were rolling over their Deferred Compensation Plan assets to. She noted that the top three firms were Morgan Stanley Smith Barney, Wells Fargo Advisors, and JP Morgan Chase.

Ms. Whelan asked if it was possible to identify the classification of participants rolling out their funds. Ms. Gameroz indicated that staff could provide the Board with this list. Ms. Whelan indicated that it would be beneficial to identify what participant classifications investment management firms were targeting and try to counter their activity by providing those participants with information regarding the benefits of the Plan. Ms. Tilley stated that she was creating a marketing piece for another Great-West client that provided a comparison table showing outside fees versus plan sponsor fees. She indicated that she would share this marketing piece with staff. Ms. Archer added that the Plan currently had information regarding fees in its distribution pamphlet. Mr. Perez stated that the Plan could reach out to DROP participants through the annual statement distributed by Pensions.

Ms. Tilley continued onto the topic of loans and hardships. She indicated that the Plan's outstanding loans had increased slightly. She stated that the average outstanding loan balance was \$8,889.51. In regards to hardships, she stated that during the second quarter, 104 hardships were approved, 10 were denied, and 8 were pending further documentation. She stated that the primary reasons for denial were lack of documentation or lack of a qualifying event. She indicated that the primary distribution reason continued to be to prevent foreclosure or eviction.

Mr. Robison concluded the presentation with an overview of the local office activity. He noted that the majority of department meetings were held at DWP and LACERS. Mr. Cannon thanked the local Great-West staff for the number of new participants that had been added to the Plan during this period of limited hiring.

Mr. Canzano asked if Great-West or staff had statistics on Roth participation. Ms. Gameroz stated that approximately 300 participants had elected to make a Roth contribution during the month of July. She indicated that Mercer had informed staff that typically there was a 5% participation rate in the Roth savings option for 401k plans several years after implementation. Mr. Robison indicated that he expected that the numbers would increase as the Great-West local staff started attending more Police and Fire roll call meetings.

#### 10. BOARD REPORT 11-54: COMMITTEE MEMBERSHIP REVIEW

Ms. Gameroz stated that due to recent changes in the Board membership, the Board Chair had requested that the matter of Committee participation be brought back to the Board. Mr. Canzano stated that Mr. Amerian and Mr. Moutes had volunteered to fill the vacancy in the Investments Committee. Mr. Amerian indicated that due to changes in his schedule, he would be unable to serve on the Committee at this time. Mr. Moutes indicated that he would serve on the Investments Committee. With regards to the Chair of the Investments Committee, Mr. Perez nominated John Mumma. Ms. Bhatia indicated that she would serve as Chair of the Investments Committee if Mr. Mumma declined the offer. Mr. Canzano asked that staff report back to the Board if Mr. Mumma declined the chairmanship.



11. BOARD REPORT 11-56: BOARD BYLAWS & REFERENCE FOLDERS

Ms. Stracke stated that at the July 19, 2011 Board meeting, the Board adopted the Bylaws/Governance Policies. She noted that the document was attached to the Board report and had been posted to the Personnel Department website. She also indicated that staff would be providing folders to the Board members that included reference documents. She explained that these would be brought back to the Board at each meeting. **A motion was made by Sangeeta Bhatia, seconded by Bob Schoonover, to receive and file information regarding the adopted Board of Deferred Compensation Administration Bylaws/Governance Policies and reference folders; the motion was unanimously adopted.**

12. BOARD REPORT 11-57: STAFF REPORT

Ms. Gameraoz stated that counter activity had slightly decreased during the month of July. She indicated that accrued leave dramatically increased. She stated that this was due to the cap on retiree medical benefits that went into effect on July 1, 2011 and precipitated a number of retirements. She stated that hardship activity increased for the month of July with 56 applications, however loan activity slightly decreased. She explained that deferral activity increased by .4% year-over-year which was likely due to the increase in accrued leave deferrals.

13. REQUESTS FOR FUTURE AGENDA ITEMS

The Board confirmed that they had requested that Board Counsel report back with information regarding the Plan's use of outside counsel and the Board's role in selecting and monitoring investment funds.

14. NEXT MEETING DATE – September 20, 2011

15. ADJOURNMENT

**A motion was made by Michael Perez, seconded by Margaret Whelan, to adjourn the meeting; the motion was unanimously adopted.** The meeting was adjourned at 10:40 a.m.

Minutes prepared by staff member Ashley Stracke.