

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OCTOBER 19, 2010 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
Richard Kraus, Vice-Chairperson
Cliff Cannon, Second Provisional Chair
John R. Mumma, Third Provisional Chair
Tom Moutes
Bob Schoonover
Maggie Whelan

Not Present:

Sangeeta Bhatia
Mike Perez

Staff:

Personnel: Alex Basquez
Steven Montagna
Natasha Gameraoz
Ashley Stracke
Claudia Guevara

City Attorney: Anita Parys

1. CALL TO ORDER

Mr. Canzano called the meeting to order at 9:07 a.m. He introduced Bob Schoonover, the Board's appointed Organized Labor Representative and President of SEIU Local Chapter 721. He also introduced Tom Moutes, the interim General Manager for the Los Angeles City Employee Retirement System (LACERS) and acknowledged the work of Sally Choi, who left the City to take another position.

2. PUBLIC COMMENT

None.

3. MINUTES

Mr. Kraus requested a notation be made regarding Ms. Bhatia leaving the meeting after the August 17, 2010 minutes were adopted. He also requested that staff include his reason for requesting data on the international small cap investments. Mr. Kraus requested that the '48%' stated on Page 6 refer to

assets and not participants. **A motion was made by John Mumma, seconded by Richard Kraus, to adopt the minutes of the September 21, 2010 Board meeting, as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: STATE STREET GLOBAL ADVISORS

Megan Hart, Client Relationship Manager, and Christopher Hawkins, Vice President, both with State Street Global Advisors (SSgA), were present to review performance information for the SSgA Russell 2000 Index Fund. Ms. Hart began by indicating that SSgA is one of three subsidiaries of State Street Corporation, and provides custodial asset management. She stated that the firm has 28 global offices, ten investment centers and 24-hour global trading capabilities, with \$1.8 trillion in assets under management. She indicated that of that amount, \$615 billion is in passive equity management. She stated that Kristy Mitchum had been hired recently to help build SSgA's \$50 billion in defined contribution plan assets.

Mr. Kraus asked if the firm had any pending regulatory issues. Ms. Hart replied that all of the firm's regulatory issues had been resolved, and that she believed the firm now had some of the industry's best practices in terms of SEC compliance.

Mr. Hawkins spoke next, beginning by indicating that the firm manages \$75 billion in funds based off of Russell indices, with the Russell 2000 representing about \$10 billion of that total. He stated that the firm managed by full replication, meaning that it bought every security that made up the index. Mr. Canzano asked what was meant by the term "additive offsets" in the presentation, and Mr. Hawkins replied that this was in reference to looking for the most efficient trading strategies, and as an example described how bulk trades could be coordinated across multiple strategies managed by the organization so that trading costs were lower.

Mr. Mumma asked what was meant by the term "single rebalancing platform." Mr. Hawkins replied that this was in reference to coordinating the rebalancing of the fund through a single trade at the end of the market day. Mr. Hawkins indicated that the firm trades 89% of the Russell 2000 Index strategy at low or no cost, and utilizes a Department of Labor exception which permits trades within an organization to be executed without a commission. He stated that the net result of the various trading strategies employed by the Fund was to keep tracking error at a very low level. He stated that the Fund's total fee is 0.06%, with 0.04% of that used for management fees and 0.02% used for administrative costs.

Mr. Hawkins next reviewed the Fund's performance, indicating that the Fund had performed very close to the performance of the index. Mr. Kraus asked if the performance returns reflected the movement of participant funds over the years, and Mr. Hawkins replied that they did not, they were based on the absolute

performance of the Fund. Mr. Mumma asked if the performance numbers on page 14 of the report reflect the actual performance of the City's Fund. Ms. Hart indicated they did not, but that those numbers were presented on page 16, and that the numbers on the former page were there due to an SEC reporting requirement. Mr. Mumma asked if the returns could match with the City's history. Ms. Hart indicated she believed this could be provided. Mr. Canzano thanked Ms. Hart and Mr. Hawkins for their presentation.

5. BOARD REPORT 10-35: ROTH 457

Mr. Montagna stated that legislation had been adopted allowing 457b plans to provide a Roth savings option. He explained that the Roth savings option would allow participants to make contributions with after-tax dollars so that taxes would not be owed on distributions of these funds assuming they were held for the appropriate length of time and were taken at the appropriate age according to Internal Revenue Service (IRS) requirements. He stated that staff recommended that the Board support adding this savings option to the Plan.

Mr. Schoonover asked if providing this option would be considered a separate plan. Mr. Montagna explained that the two money types had different tax rules associated with them and that the funds would be tracked separately, however the Roth contributions would still be considered part of the City's Deferred Compensation Plan. Mr. Kraus asked if staff could confirm that participants could not double their contributions by taking advantage of both the current tax deferred model and the Roth model. Mr. Montagna confirmed. Mr. Mumma asked if it were possible to contribute the full \$16,500 limit to the Roth. Mr. Montagna confirmed that this was possible.

Mr. Kraus asked if current participants would be able to convert their current tax deferred savings to the new Roth money type. Mr. Montagna stated that he believed there was language in the legislation regarding the ability to convert current deferred compensation assets, however, he explained that regulations detailing the specifics of how this work needed to be developed by the Internal Revenue Service (IRS).

Mr. Montagna indicated that although the federal law allows implementation to begin on January 1, 2011, California law would need to be modified in order to conform and this might delay the City's implementation of the Roth option. He explained that Mercer Investment Consulting (Mercer) indicated that the California Government and Taxation Codes might need to be amended before the Plan could permit Roth contributions. He stated that such changes can take as long as one to two years. Mr. Montagna stated that staff would continue to research this with Mercer as well as the City Attorney's Office. He also indicated that the Board might want to request that the City place this matter on its legislative agenda.

Mr. Mumma asked if a request like this should come from the Board Chairperson. Mr. Montagna stated that staff would consult with the City Attorney and could draft something from the Board Chairperson on behalf of the Board. Mr. Kraus asked if the CalNet group was addressing the issue, and Mr. Montagna indicated there was active communication on this issue among the members.

Mr. Canzano stated that many Plan participants have taken advantage of the ability to rollover traditional IRAs into the City's Plan and asked if this option would be available for outside Roth contributions. Mr. Montagna stated that was staff's assumption. Mr. Canzano asked if Great-West had anything to add. Usha Archer, Regional Manager of Great-West, stated that she agreed with Mr. Montagna.

Mr. Montagna recommended that the Board direct staff to draft language amending the Plan Document and other governing documents to allow for the administration of the Roth option. He stated that staff had contacted the City's payroll systems about the programming changes that would be necessary to implement the new money type. Mr. Montagna indicated that educating participants on the differences between the two money types would be challenging.

Mr. Moutes asked if the language for the Los Angeles City Administrative Code could be drafted now, or if the Plan would need to wait for the regulations to be finalized. Ms. Parys indicated that the regulations would need to be finalized first.

Mr. Mumma asked if there were additional costs for tracking the new money type. Mr. Montagna stated that he was not aware of any additional costs. He explained that the Plan was currently renegotiating a contract extension with Great-West. He indicated that there were some services provided by the contract that were no longer used by the Plan such as payroll stuffers and therefore the costs associated with these services may offset the costs associated with the implementation of the Roth option.

Mr. Canzano stated that although it may take one to two years before Roth plans could be offered in California, he believed that it was prudent for the Plan to prepare for implementation now. Mr. Montagna agreed. He stated that the Board might also want to refer the consultant's findings to the City Attorney for review.

Mr. Kraus stated that it might be possible that the Roth option would be implemented in the middle of 2011 and that this could affect how participants elected their contributions. He asked when staff intended to start communicating this new option to participants. Mr. Montagna indicated that communications could begin once all of the outstanding questions had been resolved. He stated that although an implementation date of January 1, 2011, was unlikely, staff was working on an aggressive target date for implementation. **A motion was then**

made by Richard Kraus, seconded by Bob Schoonover, to approve the addition of Roth contributions as a savings option within the Deferred Compensation Plan; the motion was unanimously adopted. A second motion was then made by Richard Kraus, seconded by John Mumma, to a) direct Personnel Department staff and City Attorney staff to work together to review the findings of Mercer Investment Consulting regarding California legislation on Roth 457b plans; b) draft language amending the Plan Document, and if necessary the City's governing Administrative Code provisions, to provide for Roth contributions and; c) return to the Board with the proposed language; the motion was unanimously adopted. A motion was made by Richard Kraus, seconded by Bob Schoonover, to approve staff's proposed communication from the Board Chairperson to the City Controller and the Department of Water and Power (DWP) to implement the necessary programming changes to allow for Roth contributions; the motion was unanimously adopted.

Mr. Mumma suggested that the Board also direct staff to provide a draft letter to the City's Chief Legislative Analyst. Mr. Canzano agreed. **A motion was made by Mr. Mumma, seconded by Richard Kraus, to direct staff to draft correspondence from the Board to the City of Los Angeles Chief Legislative Analyst concerning the necessary amendments to California Law that would be required to allow for Roth 457b contributions; the motion was unanimously adopted.**

6. BOARD REPORT 10-36: DEFERRED COMPENSATION PLAN TRUSTEE

Mr. Montagna recommended that the Board refer the correspondence and related information provided by the Los Angeles Police Protective League to the Plan's consultant for review. He stated that the consultant was currently working on a review of the Plan's trust documents in relation to the best practices of the industry.

Mr. Canzano thanked Mr. Mumma for addressing the Board's concerns regarding the Plan's trust with the Los Angeles Police Protective League and for providing their findings to the Board. **A motion was made by Richard Kraus, seconded by Maggie Whelan, to refer to the Plan consultant correspondence (and attachments) dated September 20, 2010 from Board member John Mumma for review and consideration relative to its evaluation of Plan trustee issues as requested by the Board; the motion was unanimously adopted. A motion was then made by Richard Kraus, seconded by Maggie Whelan, to approve the correspondence from the Board to the Police Protective League acknowledging receipt of the above-described correspondence and indicating that it has directed its consultant to review it in connection with its analysis; the motion was unanimously adopted.**

7. BOARD REPORT 10-37: DEFERRED COMPENSEATION PLAN BUDGET STATUS REPORT FOR QUARTER ENDING 6/30/10

Ms. Gameroz indicated that for the quarter ending June 30, 2010, staff was recommending reimbursements from the Deferred Compensation Plan to the Personnel Department for \$116,569.30; City Attorney for \$31,122.77; and Department of Water and Power (DWP) for \$1,397.51. She explained that Personnel Department staff had obtained access to the DWP payroll system on July 1, 2010 and therefore reimbursements would not be recommended for DWP for future quarters.

Ms. Gameroz indicated that the rolling five-year projected income and expenses indicated that the Plan's target would be exceeded over the next five years. Mr. Mumma asked if the reimbursements were based on the actual expenses of the Plan. Ms. Gameroz confirmed that this was the case. Mr. Mumma stated that there have been occasions when the City Attorney was not present at meetings and asked if this was taken into account in the budget. Mr. Montagna stated that the budget was based on percentages previously adopted by the Board. He stated that the Plan Governance and Administrative Issues Committee had discussed the Plan's reimbursement methodology as it related to the Bylaws and indicated that should the Committee want to make changes to the reimbursement methodology the Committee should make a recommendation to the full Board. Mr. Mumma asked if the Plan reimbursed the Personnel Department for the position that was vacated by Ms. Stracke while she was on assignment with the City's Layoff Team. Mr. Montagna stated that that position was not reimbursed by the Plan during that time.

Mr. Kraus asked why there was an encumbrance for the quarter ending September 30, 2009. He also asked why there was a difference in the encumbrances for the quarters ending March 31, 2010 and June 30, 2010. Ms. Gameroz addressed Mr. Kraus's first question by stating that after performing an audit on the Plan's trust fund account, staff realized there were insufficient funds when the reimbursement was made for the City Attorney staff. Mr. Montagna explained that there was a misunderstanding regarding the available funds in the account. Ms. Whelan asked if the appropriate steps had been taken to ensure that the account was not overdrawn again. Mr. Montagna stated that staff had taken the appropriate measures, and that staff now has Great-West send a payment directly to the Plan's vendors or submit a payment directly to the City's account depending on the nature of the expenditure.

Ms. Gameroz addressed Mr. Kraus's second question by stating that the discrepancy between the quarters ending March 31, 2010 and June 30, 2010 was due to the change in staffing levels. **A motion was made by John Mumma, seconded by Bob Schoonover, to a) receive and file the following status report on Deferred Compensation Plan budget accounts for the quarter ending June 30, 2010 and b) for the same quarter, approve**

reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$116,569.30; City Attorney for \$31,122.77; and DWP for \$1,397.51; the motion was unanimously adopted.

8. BOARD REPORT 10-38: STAFF REPORT

Ms. Gameraoz indicated that during September 2010, 157 participants visited the Employee Benefits Division to discuss their accounts. She also indicated that the numbers for accrued leave had decreased, with the decrease likely resulting from a drop in civilian retirements following the Early Retirement Incentive Program (ERIP).

She continued by stating that 68 hardship cases were submitted to Great-West and nearly 70% of hardship cases were made to prevent foreclosures or evictions. She also stated that 487 participants elected to obtain a loan and that deferrals were down 12.7%. Mr. Montagna then reviewed staff's pending projects and noted the changed format of the list.

Mr. Kraus asked if the staff report could incorporate information regarding the Pension Savings Plan so that the Board could monitor its status. Mr. Montagna indicated that staff had been gathering information and would report on the Pension Savings Plan in the future. Mr. Kraus asked if the underlying funds for the profile portfolios would be reviewed. Mr. Montagna stated that the Investments Committee would review this. He indicated that the next Investments Committee meeting would be November 1, 2010.

9. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Kraus asked if there were any restrictions, limitations, or guidance for individual Board members who act on behalf of the Plan. Ms. Whelan stated that she would also like to clarify the Board's position on whether individual members can act on behalf of the Plan. Mr. Canzano stated that this was especially relevant for members who have leadership positions with multiple organizations. Mr. Mumma stated that while he introduced the topic of the Plan's trust to the Los Angeles Police Protective League, the resulting correspondence to the City Council and City Attorney were from the League's President Paul Weber. Ms. Whelan suggested that the Plan Governance Committee meeting address the topic.

Mr. Kraus asked if staff had looked at the participation rate in terms of the total amount participants could defer versus amounts actually deferred. Mr. Montagna indicated that this had been done in prior years and stated that the vast majority of participants were not contributing the maximum. Mr. Kraus indicated that some participants might not reevaluate their contribution amounts on a regular basis and might not realize they could be contributing more. Mr. Canzano asked if it was possible to include language on the quarterly statement to the effect of

“You have contributed X% of the total dollars you are allowed to defer per IRS regulations.” Ms. Whelan suggested that the Plan wait until City employees are no longer furloughed before implementing this concept. She indicated that she believed it might discourage employees. Mr. Kraus stated that he was interested in having the information for internal purposes. Mr. Montagna stated that staff would work on obtaining this information.

Mr. Kraus asked for information regarding National Save For Retirement Week. Ms. Gameroz stated that staff arranged meetings throughout the week at various City departments. Mr. Kraus asked how the events were advertised. Ms. Gameroz stated that staff had sent out “All City” emails and placed information on the website. Mr. Kraus stated that he did not receive an email. Ms. Stracke suggested it might be because the library uses a different email client than most of the other departments. Mr. Canzano stated that he also did not receive the email. Ms. Gameroz explained that the email was sent to DWP, however it first needed to be reviewed by their management. Ms. Basquez stated that staff could also send an email to the departmental personnel directors informing them of the week’s events.

Mr. Mumma asked for an update on the Plan’s correspondence with the Chief Legislative Analyst (CLA) regarding automatic enrollment in the State of California. David Luther, Assistant General Manager of the Personnel Department, stated that the CLA was currently researching the topic and would determine a recommendation for the City Council. Mr. Mumma asked if it would be useful to have a formal correspondence from the Board. Mr. Luther stated that he didn’t think this was necessary, and that Personnel Department staff would follow up with the CLA.

Mr. Kraus asked when the recently added Board members would be assigned to the Committees and if a new member would be nominated for the First Provisional Chair position. Mr. Canzano explained the Plan’s Committees and requested that the new Board members state their preference, and that he would make a decision at a future Board meeting. Mr. Montagna stated that the First Provisional Chair should be selected at the next Board meeting.

10. NEXT MEETING DATE- NOVEMBER 16, 2010

11. ADJOURNMENT

A motion was made by Maggie Whelan, seconded by John Mumma, to adjourn the meeting; the motion was unanimously adopted. The meeting was adjourned at 10:25 p.m.

Minutes prepared by staff members Steven Montagna and Ashley Stracke.