CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING DECEMBER 21, 2010 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:	Not Present:
Eugene K. Canzano, Chairperson	Sangeeta Bhatia
Richard Kraus, Vice-Chairperson	Clifford Cannon
John R. Mumma, Third Provisional Chair	Tom Moutes
Bob Schoonover	Mike Perez
Margaret Whelan	

Staff:

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

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting began without a quorum at 9:03 a.m. with a presentation of the Great-West Quarterly report and was later called to order by Mr. Canzano at 9:34 a.m.

2. PUBLIC COMMENT

None.

3. GREAT-WEST QUARTERLY REPORT

Usha Archer, Regional Manager, Lisa Tilley, Director of Government Operations, and Gary Robison, Local Manager, all with Great-West Retirement Services (Great-West) were present to provide the Great-West quarterly review. Ms. Tilley began the presentation by stating that there was a 7.5% increase in Plan assets over the previous quarter. She explained that this was primarily due to the positive change in market valuation. Referring to Page 7, she indicated that the Plan's participant base had remained consistent over the last several quarters, but that there was an increase in non-contributing participants over the last two quarters. Mr. Robison stated that this was likely due to those participants who left under the Early Retirement Incentive Program (ERIP).

Ms. Tilley indicated that there was a large net cash flow into the PIMCO Total Return Fund, which was likely due to the strong market returns during the second quarter. Ms. Tilley stated that page 11 appeared to be incorrect and explained that Great-West staff would review the figures and report back to the Board.

Referring to Slide 13, Ms. Tilley stated that most allocations had stayed consistent for the last several quarters. Mr. Robison noted that the participants were increasingly utilizing the profile portfolios. Mr. Mumma asked if the percentages included those participants that split their assets between a profile portfolio and another of the Plan's investment options. Ms. Tilley stated that it did. Ms. Archer indicated that Great-West could provide a report that identified those participants only.

Mr. Kraus asked if Great-West could provide a report indicating which participants were retirees and which were employees. Ms. Tilley stated that Great-West was currently unable to give an exact number. Mr. Mumma asked how many participants were contributing the maximum limit allowed by the Internal Revenue Service (IRS). Ms. Archer stated that when this had been reviewed a few years ago it was approximately 15%.

Ms. Tilley continued by indicating that rollovers out of the plan were slightly higher than in years past. Referring to page 18, Mr. Mumma asked the general reasons participants might take a full distribution. Mr. Robison stated that most participants who took a full distribution rolled the money over to another plan.

Ms. Tilley then directed the Board to page 20 and discussed the hardship numbers. Mr. Mumma questioned if the Board should receive more detailed summaries of hardship approvals. Mr. Montagna indicated that this was possible although the type of information the Board received regarding hardships was in line with that of other plans that outsource the review process. Ms. Tilley added that approximately 95 – 98% of Great-West's large clients outsourced hardships and were provided similar information. Mr. Robison then concluded the presentation by briefly discussing the activity at the local office.

Ms. Whelan arrived at 9:33 a.m., which made a quorum of the Board. Mr. Canzano formally called the meeting to order at 9:34 a.m.

Referring to page 31, Mr. Kraus asked why there were large fluctuations in the Administrative Fee Holding Account numbers. Mr. Montagna stated that it was likely due to the timing of the salary reimbursements. Mr. Kraus also clarified that the footnote should state the City of Los Angeles Deferred Compensation Stable Value Fund. Ms. Archer confirmed.

4. MINUTES

Mr. Kraus asked if the information indicated on page 3 of the minutes had been provided by State Street Global Advisors. Mr. Montagna stated that staff had not received this information and would follow-up. Mr. Mumma stated that the minutes should indicate that Tom Moutes replaced Sally Choi. **A motion was made by Richard Kraus, seconded by John Mumma, to adopt the October 19, 2010 minutes as amended; the motion was unanimously adopted.**

5. QUARTERLY INVESTMENT PERFORMANCE REVIEW/BOARD REPORT 10-39

Mr. Montagna stated that Mercer Investment Consulting (Mercer) would first present the Quarterly Investment Performance Review and then staff would present Board Report 10-39 once Mercer discussed American Funds Growth Fund of America and American Funds Investment Company of America.

Eileen Kwei, Principal Consultant for Mercer, began the presentation by giving a brief overview of the market. She stated that there was strong market performance during the third quarter of 2010 with the S&P 500 index up by approximately 11% and the MSCI EAFE Index gaining 16.5%. She also indicated that the Barclay Capital Aggregate Bond Index was up by 2.5%.

Ms. Kwei then directed the Board to the Compliance Table on pages 18 and 19 of the report. She indicated that the Compliance Table compared the Plan's investment options to the market index as well as the universal median. She stated that most of the Plan's investment options outperformed both their market indices and universal median.

Her discussion then focused on the American Funds Growth Fund of America A, the Lazard US Mid Cap Equity Portfolio Institutional, and the Fidelity Diversified International Fund, each of which showed underperformance with either their respective index, the universal median, or both. Ms. Kwei stated that the American Funds Growth Fund of America A had under performed the Russell 1000 Growth Index as well as the large-cap growth manager universe. She stated that stock selection in energy detracted from performance and that the cash position of the fund was 8%, which represented a "cash drag" given the strong equity markets. She indicated that long-term performance of the fund was competitive, however Mercer continues to monitor the amount of assets in the fund, which stood at $152 Billion at the end of the third quarter, the largest large-cap growth fund in its peer universe.

In regards to the Lazard Mid-Cap Equity Fund Institutional, Ms. Kwei stated that the fund had been added to the watch list in 2009. She stated that at the three-year and five-year periods, the fund's performance was trailing both the index and the mid-cap manager universe and indicated that much of this was due to the fund's underperformance in the second half of 2007 when the fund had significant exposure to homebuilders. She indicated that the fund's performance had improved in recent quarters and stated that Mercer met with Lazard earlier in 2010 to confirm that there was no significant turnover in staffing. She indicated that Mercer recommended that the Board continue to keep Lazard on the watch list until the third-year and five-year performance improves.

Mr. Kraus asked when a fund's performance status (i.e. "watch", "monitor", etc.) would be reset to "retention" after showing improvement. Mr. Montagna stated that assuming the fund's performance continues to improve, staff could provide a recommendation to reclassify the fund from "watch" status to "monitor." Ms. Kwei stated that there was nothing at present that gave Mercer concern regarding this fund and Mercer would therefore recommend that the Board continue keeping the fund on "watch" status or reclassify it to "monitor" status.

Mr. Schoonover asked if any of the other funds in the Plan had significant personnel turnover. Ms. Kwei stated that Lazard had significant personnel changes in 2009, but that all of the others had remained stable. Mr. Mumma asked if alternative fund options were reviewed if one of the Plan's funds was put on "monitor" or "watch" status. Mr. Montagna stated that the search for alternatives is generally driven by the end of a contract term or by changes to the investment menu and not due to the "monitor" or "watch" status, unless the Fund was terminated.

Ms. Kwei next discussed Fidelity Diversified International Fund. She stated that the fund outperformed the MSCI EAFE index during the third quarter, but had poorer performance over the long term. She indicated that the fund's exposure to emerging markets helped the fund outpace the MSCI EAFE index. She also indicated that Mercer continues to have confidence in the fund's portfolio manager, William Bower, however, the fund would continue to be on "watch" status until long term performance improved.

The Board was then directed to page 17 for a discussion regarding fund fees. Ms. Kwei stated that the American Funds Investment Company of America A had an expense ratio of 66 basis points which included 30 basis points of revenue sharing. She indicated that Great-West manually rebated the revenue sharing fees to participants. She explained that this equaled a net expense ratio of 36 basis points. She indicated that Mercer asked American Funds to provide the Plan with the R6 share class, which is priced at 33 basis points without revenue sharing. She stated that staff and Mercer recommended that the Board approve the change in share class which would result in a net savings of 3 basis points and would eliminate the manual rebate process.

Ms. Kwei continued by stating that the expense ratio of American Funds Growth Fund of America A was currently at 69 basis points with 30 basis points of revenue sharing also manually rebated to participants by Great-West. She indicated that this resulted in a net fee of 39 basis points. She stated that changing to the R6 share class priced at 34 basis points would result in net savings of 5 basis points and would remove the manual revenue sharing rebate. She indicated that both staff and Mercer recommended changing the fund from the A share class to the R6 share class.

Mr. Canzano asked Mercer to confirm that the differences in the funds were due solely to the way the fees were charged and not due to differences in the portfolios. Ms. Kwei stated that this was the case. Mr. Mumma asked what the primary difference was between the two share classes and if it was due to fluctuations in the fees. Ms. Kwei stated that the A share classes offer revenue sharing, which many defined contribution plans prefer to help offset recordkeeping costs, while the R6 share class does not have revenue sharing associated with it. She stated the R6 share class would be more appropriate for the City's Plan because revenue sharing fees were not needed to offset recordkeeping expenses.

Mr. Kraus asked if the performance of the two share classes was similar. Ms. Kwei stated that it was. Mr. Mumma asked if the revenue sharing expenses were always 30 basis points. Ms. Kwei stated that revenue sharing fees were negotiated between the various recordkeepers and the investment providers. Mr. Mumma asked how often revenue sharing expenses fluctuate. Ms. Kwei stated that current revenue sharing fees have remained consistent over a significant period of time.

Mr. Kraus asked why this share class had not been presented to the Board before. Ms. Kwei stated that the R6 share class was launched a little less than a year ago and was therefore relatively new. Mr. Kraus asked how Great-West viewed the differences in the two share classes. Ms. Tilley stated that from the standpoint of Great-West, a move to the R6 share class would be positive since the revenue sharing fees would not need to be rebated to the participant, however, she continued by stating that participants would need to be educated on the differences of the two share classes.

Mr. Montagna stated that American Funds had indicated that the firm was negotiating with Charles Schwab to provide the R6 share class through the Self-Directed Brokerage Option (SDBO). He stated that if participants wanted to continue to hold shares in either of these funds after the Plan discontinued offering them as a core option, they could transfer their shares at minimal cost. **John Mumma made a motion, seconded by Margaret Whelan, to approve the change from the "A" share class to the "R6" share class for both the American Funds Growth Fund of America and American Funds Investment Company of America.** Mr. Canzano asked if there was any further discussion. Mr. Kraus asked how Mercer was able to determine the performance of the R6 share class since it had been in existence for less than a year. Ms. Kwei stated that the R1, R2, R3, R4, and R5 share classes had much longer performance histories and tracked in line with each other as well with the A share class. **The motion was unanimously adopted.**

6. BOARD REPORT 10-40: THIRD PARTY-ADMINISTRATOR CONTRACT

Mr. Montagna stated that at the August 17, 2010 meeting, the Board directed staff to meet with Great-West to negotiate fees and services for a possible contract extension. He explained that the focus of negotiations was to look for ways to increase efficiency, improve service, and decrease costs that would benefit both the City and Great-West. He further explained that staff and Great-West looked for ways of going paperless or electronic.

Mr. Montagna went on to discuss areas where staff and Great-West believed they could achieve significant fee savings. He began by indicating that online confirmations of participant transactions would be made paperless (i.e. not require a mailing). Mr. Mumma asked why this only applied to online transactions and not to those transactions initiated with a customer service representative or via the automated phone system. Ms. Tilley stated federal regulations required Great-West to provide hard copy confirmations for those types of transactions. Mr. Kraus asked why transaction confirmations could not be sent to the Online Filing Cabinet. Ms. Tilley stated that currently the Online Filing Cabinet was only used for quarterly statements, but that Great-West was looking into adding this option in the future.

Mr. Montagna continued by indicating that participants would be able to submit distribution requests online. He explained that participants would still have the option of utilizing a paper form. He directed the Board to the chart on page 2 of the report and indicated that full and partial distributions would be targeted to go paperless, which was approximately 13% of all distribution transactions in 2009. Mr. Montagna stated that Great-West had indicated that the website does not currently have the capability to process periodic payments, however, this may be a feature that is added in the future.

Mr. Montagna indicated the Plan would also begin offering online enrollment. He stated that although the number of participants who used online enrollment may not be significant given the current hiring freeze, staff believed this would provide a convenient option for potential participants. Mr. Canzano indicated that he agreed.

Mr. Montagna stated that staff and Great-West reviewed the possibility of defaulting participants into electronic statement issuance unless a participant opts to continue receiving statements in the mail. He stated that although the Federal Government is currently able to do this the Plan follows different regulations and therefore would be unable to provide the option at this time. He stated that about 7% of participants currently opt for electronic statements, however staff and Great-West believe that with a comprehensive marketing campaign electronic delivery usage could increase by approximately 8.5% per year. He indicated that Great-West and staff had built in an additional fee reduction if 75% of Plan participants opted for electronic statements. Mr. Montagna stated that this was included primarily to provide participants with an incentive.

Mr. Mumma asked how far back participants were able to view their quarterly statements online. Ms. Archer stated that participants could view up to three years of quarterly statements and download PDFs of the statements and save them to their computers. Mr. Mumma stated that participants might be concerned that their ability to view statements would be limited to three years. Ms. Tilley stated that participants could contact the Client Service Center to request statements over three years old.

Mr. Mumma asked why the fee reduction was provided at a significantly higher participation rate than what was projected for the five-year horizon. Mr. Montagna explained that the five-year projection was assumed in the current reduced pricing model and that the higher participation rate would result in an additional fee reduction.

Mr. Schoonover asked if the move towards electronic statements would allow participants to receive their statements earlier. Ms. Tilley stated that it would slightly. Mr. Montagna stated that the release date of the statements is primarily impacted by the time that it takes Great-West to receive reporting from the investment companies. He indicated that by changing the total number of options on the investment menu, the Plan might be able to reduce the time that it takes to send out the quarterly statements. Mr. Schoonover stated that he had received concerns from some participants who stated that they received their quarterly statements nearly a month after the end of the quarter. Ms. Tilley stated that the changes to the investment menu should allow Great-West to receive performance reporting information from the investment providers sooner, which would allow Great West to send out the quarterly statements earlier.

Mr. Kraus asked if it would be possible to provide participants a fee reduction, funded by the Plan’s surplus, for opting to receive electronic statements. Ms. Tilley stated that she did not know what would be allowable through the City’s Plan. Mr. Montagna stated that staff could review the feasibility of that option as it related to the overall marketing strategy.

Mr. Montagna concluded by indicating that further cost savings could be realized by the elimination of payroll stuffers from the contract extension and by reducing the number of special mailings from three to two. He then directed the Board to the price proposal table on page 5 and indicated that if the Board decided to extend the length of the Deferred Compensation Plan contract then it would be likely that the Pension Savings Plan contract would also be extended for an equivalent term.

Mr. Kraus asked if staff anticipated additional costs associated with the changes to the investment menu. Mr. Montagna stated that the majority of the investment menu changes would take place during the current contract. Mr. Kraus asked if staff expected ongoing costs, such as the use of a master custodian. Mr. Montagna indicated that no ongoing costs were anticipated and also indicated that the fees associated with use of a master custodian was outside the scope of the Great-West contract and would therefore have its own set of fees.

Mr. Canzano indicated that he was in favor of extending the contract because he believed that it was in the best interest of Plan participants. Mr. Mumma asked if staff anticipated any difficulty with the City Council. Mr. Montagna stated that the Board had been operating under the assumption that for any contract extension, the Plan would need to obtain approval from the City Council. However, he explained that the Board's Counsel, Curt Kidder, had reviewed the Administrative Code and found a provision added in 1994 that allows the Board to execute amendments to contracts that do not result in additional costs to the participants.

He indicated that staff and the City Attorney still needed to review the intent of the Administrative Code language and learn if it would apply to the Great-West contract. He stated that staff would report on this at an upcoming meeting, however the Board could decide if it would like to extend the contract. Mr. Kidder confirmed what staff indicated. **A motion was made by Richard Kraus, seconded by John Mumma, to accept the proposed terms and extend the contract with Great-West Retirement Services for an additional five years; the motion was unanimously adopted.**

7. BOARD REPORT 10-41: ROTH 457 UPDATE

Mr. Montagna stated that the Plan had contacted the City's Sacramento lobbyists to learn the typical length of time the State of California took to draft and approve conforming tax legislation. He indicated that the City's lobbyist contacted the Chief Consultant for the Assembly's Revenue and Taxation Committee who explained that California law provided language that would not require additional conforming legislation for the Roth 457 and also referred staff to an individual that works with the Franchise Tax Board who confirmed this. Mr. Montagna stated that staff had passed this information to the City Attorney for review.

Mr. Montagna indicated that other California plans intend to implement the Roth contribution option in 2011. He indicated that the tentative implementation for the Plan's Roth 457 would be in May, however, he also indicated that there was significant work that would need to be done before this could take place. Mr. Canzano asked if there were any issues that would need to be resolved with the recordkeeper. Mr. Montagna indicated that there were not. Mr. Canzano asked if the Roth 457 deductions would show as separate payroll deductions. Mr. Montagna confirmed this.

Mr. Mumma asked if outside Roth dollars could be rolled-over into the Plan. Mr. Montagna stated that participants would not be able to do this unless the Plan offered a deemed Roth IRA. Mr. Mumma asked if this would be created. Mr. Montagna stated that the Plan had the authority to create a deemed IRA, however, a number of logistical hurdles needed to be addressed and staff would present information regarding this at a later date. He also indicated that staff would continue to update the Board on the progress of the Roth 457 implementation. **A motion was made by Richard Kraus, seconded by Margaret Whelan, to receive and file information contained within Board Report 10-41 regarding implementation of a Roth 457 savings option within the Deferred Compensation Plan; the motion was unanimously adopted.**

8. BOARD REPORT 10-42: CALIFORNIA LARGE PLANS MEETING

Mr. Montagna stated that staff was recommending approval from the Board to send two staff members, Natasha Gameroz and himself, to meet with the California Large Plans during the month of January. Mr. Canzano indicated that he believed that the previous meetings had proven to be beneficial. Mr. Kraus asked if City policy required conference/education travel be for/with a group that is formally recognized. David Luther, Assistant General Manager of the Personnel Department, stated that the meeting would be considered a business meeting. Mr. Kidder agreed and stated that he was unaware of such a requirement. Mr. Mumma asked if the costs had been budgeted. Mr. Montagna confirmed. **A motion was made by Richard Kraus, seconded by Margaret Whelan, to approve the necessary funding for two staff members to attend a meeting of the California Large Defined Contribution Plans network in San Francisco, California on January 20-21, 2011; the motion was unanimously adopted.**

9. BOARD REPORT 10-43: 2011 PLAN BUDGET

Ms. Gameroz stated that the 2011 Deferred Compensation Plan Budget supplemented the quarterly reports of the Plan's reconciliation of fee revenues and internal administrative expenses. She indicated that for 2011 the Plan surplus was expected to remain flat due to salary savings from positions filled by the lower paying classes of Management Assistant and Clerk Typist. She stated that the administrative fee revenues were expected to increase in 2011 due to an increase in Plan assets and stated that the assumed growth-rate of Plan assets was 9% while the actual growth-rates of 2009 and 2010 (year-to-date) were 19.4% and 6.8% respectively.

Ms. Gameroz stated that the participant growth-rate was expected to remain flat and stated that the direct salary and related indirect costs were expected to remain the same. She indicated that at the November 9, 2010 Plan Governance Committee meeting, the Committee requested that funding for outside counsel be included in the Annual Plan Budget, however, she stated that since the Board had not yet adopted the Bylaws, this had not been incorporated into the budget.

Ms. Gameroz continued by stating that the estimated consulting costs were $150,000 for the year and indicated that this may increase to $175,000 depending on decisions that have not yet been made by the Board. She stated that $54,105 was the projected travel/training/education expense. She indicated that the funds allocated to “Office Furniture and Equipment” represent computer and software upgrades for staff and that the asset allocation fund management fees remained the same. She stated that the costs associated with the elections for the Fire/Police Pensions and Los Angeles City Employees Retirement System (LACERS) representatives had also been budgeted for 2011.

Mr. Mumma asked if the hardship line item was a flat fee or based on an actual number of hardships processed. Ms. Gameroz stated that it was based on the actual number of hardships processed.

Mr. Kraus asked if it was possible to include additional margin in the budget to allow for unanticipated expenses that may be incurred, such as changes in the salary expenditure. He indicated that he was unsure how flexible the Plan would be to accommodate changes in salary. Ms. Gameroz stated that maximum salary of each authorized staffing position is assumed in the quarterly report. Mr. Montagna also stated that the Plan had a significant surplus and given that the Plan is conservative with all of its assumptions, the Plan would be able to make adjustments during the year. **A motion was made by Richard Kraus, seconded by Bob Schoonover, to adopt staff’s proposed budget for the 2011 calendar year; the motion was unanimously adopted.**

10. BOARD REPORT 10-44: PROVISIONAL CHAIRS/COMMITTEE MEMBERSHIP

Mr. Canzano stated that he would prefer discussing the topic of Provisional Chairs and Committee membership at the January meeting to allow for a fuller Board to participate and to allow Board members the opportunity to contact him regarding their Committee preferences. The Board confirmed. Mr. Mumma stated that he would like staff to come back to the Board with information regarding Board member attendance. Mr. Montagna indicated that staff would provide this information.

Mr. Kraus suggested that with a Board member only assigned to one Committee, given that the Board currently only has two Committees, at least one Board member would be without a Committee assignment. Ms. Whelan asked if attendance would be considered when determining Committee selection. This was confirmed. Ms. Whelan suggested that attendance be considered in the selection of Provisional Chairs as well. Mr. Canzano and Mr. Mumma agreed. Mr. Mumma asked if the “Board Member Attendance Report Card” would be provided for 2010. Mr. Montagna indicated that this was discussed at the Committee level in regards to the Board Bylaws/Governance Policies, which had not yet been adopted by the Board. He also indicated, however, that staff could provide this information. **A motion was made by John Mumma, seconded by Richard Kraus, to table Board Report 10-44: Provisional Chairs/Committee Membership until the January 18, 2011 Board meeting; the motion was unanimously adopted.**

11. BOARD REPORT 10-45: STAFF REPORT

Ms. Gameroz stated that counter activity in November increased slightly to 206 participants and that accrued leave activity remained fairly consistent with numbers of the previous couple months. She indicated that during the month of October, 52 hardship cases were submitted, 45 approved, 3 denied, and 4 were pending further documentation. She also indicated that during the month of November, 35 hardship cases were submitted, 30 cases were approved, 2 denied, and three were pending further documentation.

Ms. Gameroz continued by stating that the number of participants who requested a loan had increased from 427 in October to 467 in November. She indicated that October and November both showed a reduction in bi-weekly cash deferrals over the previous year by over twelve percent.

Mr. Montagna continued with a discussion of staff projects. He indicated that Mercer had completed its review of the Plan's trust documents and their findings would be presented at the January 18, 2011 Board meeting. **A motion was made by John Mumma, seconded by Margaret Whelan, to receive and file Board Report 10-45; the motion was unanimously adopted.**

12. REQUEST FOR FUTURE AGENDA ITEMS

13. NEXT MEETING DATE – JANUARY 18, 2011

14. ADJOURNMENT

A motion was made by Richard Kraus, seconded by John Mumma, to adjourn the meeting; the motion was unanimously adopted. The meeting was adjourned at 11:58 a.m.

Minutes prepared by staff member Ashley Stracke.