

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING FEBRUARY 17, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Clifford Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Michael Amerian, Third Provisional Chair
Ray Ciranna
Linda P. Le
Wendy G. Macy
Robert Schoonover

Not Present:

Staff:

Personnel:	Alejandrina Basquez Steven Montagna	Esther Chang Paul Makowski Matthew Vong
City Attorney:	Curt Kidder	

1. CALL TO ORDER

Eugene Canzano started the meeting at 9:02 a.m.

2. PUBLIC COMMENTS

Mr. Canzano informed meeting attendees of his impending retirement and resignation from the Board of Deferred Compensation Administration. He stated it had been a great honor and pleasure to serve as a Board member and extended his sincere gratitude for the support from Board members, administrative staff, consultants, and his spouse.

3. MINUTES

A motion was made by John Mumma, seconded by Wendy Macy, to approve the January 20, 2015 Regular Meeting minutes; the motion was unanimously adopted.¹

¹ *Cliff Cannon, Robert Schoonover, and Michael Amerian were not yet present for this motion.*

4. PLAN ADMINISTRATOR QUARTERLY REPORT: 12/31/14

Joan Watkins, Client Relationship Director with Empower Retirement, reviewed the Plan Overview section of the quarterly report and highlighted assets, contributions and participant account balances in the Plan. She indicated assets had grown by 3.2% for the quarter. She stated contributions decreased slightly, which may have been due in part to participants reaching their limits before the end of 2014. She indicated assets in Roth balances increased by 15.8% and stated it was indicative of the growing popularity of that component of the Plan. She indicated overall assets in the Plan had shown an impressive growth of 196% over the past 14 years.

Ms. Watkins continued to review participation information, account balances and asset allocations in the Plan. She stated the total number of participants increased by 45% since the 4th quarter of 2000. She stated the most significant change in cash flow occurred within the Moderate Profile Portfolio, which increased by 6.6%. She stated average account balances increased by 2.8% from the previous quarter to \$113,002. She indicated the total number of participants with an account balance of over one million dollars increased from 93 to 100.

Linda Le asked why the dollar amount for quarterly fees collected decreased in comparison to the previous quarter. Lisa Tilley, National Accounts Director with Empower Retirement stated their staff would clarify and return to the Board with an explanation. Mr. Mumma indicated he had asked the same question the previous year and understood that fees had consistently shown to be lower in the 4th quarter.

Ms. Tilley provided an Administrative Overview and stated there was an increase in minimum distributions since they were generally processed during the 4th quarter of each year. She stated amounts for partial and full distributions remained similar to previous quarters. Mr. Mumma cited a survey result presented at the previous month's Board meeting regarding retiree distributions and asked whether there was information available pertaining to the number of participants that separated from service but have yet to withdraw from their accounts. Ms. Tilley indicated data could be extracted to determine that statistic. She suggested data could be analyzed pertaining to participants within specific age ranges to determine the status of account balances and distribution records. Ms. Tilley noted that Empower Retirement actively engages Plan participants who approach the age of 70 ½ by sending notifications informing them that they must begin drawing down their account. Mr. Mumma suggested it may be useful to extract data pertaining to participants that are 68 or older, but have yet to withdraw from their accounts. Mr. Canzano noted tax liabilities a retiree could incur by not drawing down their account when reaching the age of 70 ½, and stated in-plan conversions that convert traditional pre-tax dollars to Roth could be an appropriate drawdown strategy. Ms. Tilley suggested an article could be printed in the quarterly newsletter to address this issue.

Ms. Tilley continued to report on assets rolled in and out of the Plan. Tom Moutes addressed an item from a previous meeting requesting that the "LACERS Larger Annuity" be added as a category in the "Rollover to IRA Summary" of the quarterly report. Ms. Tilley stated Empower Retirement staff would have to determine how that component would be categorized.

Ms. Tilley reviewed information on loan activity and indicated the number of defaults was consistent with previous quarters. Mr. Canzano asked what current mechanism allowed retirees to continue to payments on their outstanding loans. Ms. Tilley indicated retirees could repay their loans via coupon book and send in a physical check or via ACH (automated payment from a bank account). Mr. Mumma indicated he was interested in seeing information specific to loan default amounts for the calendar year in addition to the cumulative overall number indicated in the report. Mr. Ciranna also requested that future reports include additional analysis of loan numbers. Ms. Tilley stated they would look into adding the requested statistics and noted future reports were in the process of being revamped. Steven Montagna indicated one of the purposes of the new report was putting numbers in context and relating them back to the core mission of the Plan. Cliff Cannon asked for the number of retirees that have taken multiple loans. Esther Chang indicated staff could retrieve that statistic and report back to the Board.

Ms. Tilley stated loan initiations were lower in 2014 compared to the previous year. She stated this was generally not seen in other plans. She reviewed hardships and KeyTalk statistics and stated statistics were similar to the prior quarter. She indicated 23.42% of Plan participants currently received an online statement, which was the highest number of any plan she knew of relative to Empower Retirement administered government plans.

La Tanya Harris of Empower Retirement reviewed statistics regarding participant contacts, meetings/facility visits, and group meetings. She reported significant numbers of participants walked in for individual counseling. She stated counseling sessions consisted of questions pertaining to the DROP program, Catch-up, accrued leave, loans and beneficiary changes. She reported an average of over 500 calls per month had been received. Mr. Cannon asked additional detail related to the types of calls that were received. Ms. Harris indicated the calls varied, but many pertained to changes to contribution limits and assistance on utilizing the retirement income projection calculator. Ms. Tilley concluded by thanking Mr. Canzano for his service on the Board and wished him well in retirement.

5. BOARD REPORT 15-10: PASSIVE FUND SEARCH RECOMMENDATIONS

Devon Muir from Mercer Investment Consulting, the Plan's investment consultant, reviewed the Investment Committee's Passive Funds Search recommendations to the Board. He stated that for the passive bond category the Vanguard Total Bond Market Fund was selected on the basis of having very low fees and effective tracking and overall replication of the Barclay's Aggregate Bond Index. He indicated that for the passive large-cap asset category, the Investment Committee's recommendation was to retain the Vanguard Institutional Index Fund, which was a fund that demonstrated strong tracking relative to the benchmark and had the lowest fees compared to six other funds within the peer group that met the minimum criteria. He continued by stating that of the 4 candidates that were reviewed for the passive mid-cap category, the Vanguard Mid-Cap Index Fund was recommended based on having the lowest cost and strong tracking relative to its benchmark. He finally stated Vanguard was also recommended for the passive small-cap category, which indicated the lowest fees compared to the field of qualified candidates and also close tracking of the benchmark.

Mr. Muir stated the Committee also addressed the topic of securities lending. He indicated that while Vanguard did implement securities lending within its index funds, Mercer's research team believed their approach to be sound and minimized risk. Mr. Canzano stated that securities lending had been an important part of the discussion during the selection process. He indicated the Committee made note of Vanguard's conservative approach to securities lending, along with the fact that the firm did not lose money during the 2008 economic downturn. He stated all of the Committee's recommended investment funds satisfied the criteria of having low fees, were conservative on securities lending if it was a part of the strategy, and had the ability to closely track performance of the index. Mr. Moutes added that in addition to Vanguard not losing any money during the economic downturn, consideration was also given to the fact that Vanguard credited profits made via securities lending back to the fund, rather than crediting back to the investment manager(s). He stated that given Mercer's analysis, he believed Vanguard maintained a low-risk, conservative approach with securities lending.

Mr. Montagna stated one of the topics discussed at the Investment Committee meeting was to improve the issue of transparency within the Plan's Investment Policy Statement related to this topic. He indicated the securities lending issue was something future Board members should be made aware of when conducting passive manager searches.

A motion was made by Mr. Moutes, seconded by Mr. Mumma, to approve the Investment Committee's recommendation to select the Vanguard Total Bond Market Index Fund Institutional Plus for the underlying passive component of the DCP Bond Fund; the motion was unanimously adopted. A second motion was made by Mr. Moutes, seconded by Mr. Cannon, to approve the Investment Committee's recommendation to select the Vanguard Institutional Index Fund Institutional Plus for the underlying passive component of the DCP Large-Cap Fund; the motion was unanimously adopted. A third motion was made by Mr. Moutes, seconded by Mr. Mumma, to approve the Investment Committee's recommendation to select the Vanguard Mid-Cap Index Fund Institutional Plus for the underlying passive component of the DCP Mid-Cap Fund; the motion was unanimously adopted. A fourth motion was made by Mr. Moutes, seconded by Mr. Schoonover, to approve the Investment Committee's recommendation to select the Vanguard Small-Cap Index Fund Institutional Plus for the underlying passive component of the DCP Small-Cap Fund; the motion was unanimously adopted.

6. BOARD REPORT 15-11: PROPOSED AMENDMENT TO INCREASE CONTRACT CEILING FOR MERCER INVESTMENT CONSULTING ("MERCER IC")

Esther Chang indicated staff recommended approval of a request to execute an amendment to the Board's contract with Mercer to increase the contract ceiling amount. She stated the current contract with Mercer consisted of two components: 1) plan administration and investment consulting under the Mercer IC arm; and 2) communications consulting under the Mercer US arm. She indicated the extensive investment management related projects in the past year had brought the Plan close to

the contract ceiling of \$375,000. She stated staff was requesting an increase of the contract ceiling to \$450,000 for the Mercer IC portion. She noted there was an additional \$75,000 allocated for communications projects with Mercer Consulting (Mercer US), and it was anticipated these funds would not be utilized by time the contract expired on June 30, 2015. Mr. Canzano asked if the increase of the Mercer IC contract ceiling amount would impact the total estimated annual expenditures budgeted for the year. Ms. Chang indicated there would be no impact.

Mr. Ciranna asked how much Mercer had been compensated after each investment management search. Ms. Chang indicated staff did not have those amounts available as compensation varied based on number of hours spent on each search. Mr. Muir confirmed the amounts were variable based on hours worked as opposed to a flat fee. Mr. Canzano commended Mercer on the tremendous amount of work and research that had been conducted. Mr. Montagna added that fund searches had been extensive and included every plan investment option over the past two years. He stated that when the Plan had originally awarded the contract to Mercer, the current procurement schedule had not been created. He indicated the intent of that schedule was to consolidate all these searches within a long term plan, which was effectively executed in the past two years.

A motion was made by Mr. Ciranna, seconded by Ms. Macy, to authorize the Board Chairperson to execute an amendment to the Board's contract with Mercer Investment Consulting ("Mercer IC") increasing the contract ceiling amount from \$375,000 to \$450,000; the motion was unanimously adopted.

7. BOARD REPORT 15-12: NATIONAL SAVE FOR RETIREMENT WEEK ACTIVE SURVEY AND UPDATED RETIREE SURVEY RESULTS

Paul Makowski presented results for the active Plan participant survey as part of the Plan's engagement/awareness campaign. He stated the main objective of the survey was to encourage active participants to use the retirement income projection calculator.

Mr. Canzano asked if results were going to be posted on the web. Mr. Makowski indicated it would be possible to provide this information in a future newsletter article. Ms. Macy asked how the survey data could be used to tailor future communications, and if follow-up questions were posed to the survey takers to determine their motivation(s) for contributing to the Plan. Mr. Montagna stated the primary intention of the active Plan participant survey was to encourage engagement with the retirement income projection calculator. He stated staff's intent for future surveys was to focus on participant knowledge of concepts that were necessary to be successful in the Plan. He stated that determining retirement income replacement percentage was the key metric for whether someone was on track to be successful with their account.

Mr. Schoonover asked if the plan was provided examples to show potential participants how it is easier to prepare for retirement in the earlier stages of a career. Mr. Makowski indicated Plan representatives offer such accumulation examples in enrollments. Mr. Montagna indicated the Plan was shifting its communication and messaging to focus on

retirement income security achieved through a combination of the deferred compensation benefit and defined benefit plan. He stated that conjunctively analyzing those pieces would aid in determining whether an employee is on track to be secure in retirement and was key to shifting the orientation of how success is measured.

A motion was made by Mr. Mumma, seconded by Michael Amerian, to receive and file information regarding active employee and updated retiree survey results from the 2014 National Save for Retirement Week campaign; the motion was unanimously adopted.

8. BOARD REPORT 15-13: WHARTON SCHOOL PORTFOLIO CONCEPTS AND MANAGEMENT TRAINING

A motion was made by Mr. Ciranna, seconded by Mr. Mumma, approving two individuals to attend the April 2015 Wharton School Portfolio Concepts & Management training in Philadelphia, Pennsylvania; the motion was unanimously adopted.

9. BOARD REPORT 15-14: DEFFERED COMPENSATION PLAN BUDGET STATUS REPORT: QUARTERS ENDING 12/31/14

Mr. Makowski reported on reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department and City Attorney. Mr. Canzano referenced the graph on page 2 and asked whether the estimated gap between the Surplus Balance and Reserve Targets was decreasing. Mr. Makowksi confirmed the gap was decreasing.

A motion was made by Mr. Cannon, seconded by Mr. Schoonover, to receive and file the report on Deferred Compensation Plan budget accounts for the quarter ending 12/31/14; the motion was unanimously adopted. A second motion was made by Mr. Cannon, seconded by Mr. Amerian, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$144,876.81 and City Attorney for \$25,387.11; the motion was unanimously adopted.

10. BOARD REPORT 15-15: LEGISLATIVE/REGULATORY UPDATE

Ms. Chang stated the Board had previously requested an update on potential and/or pending legislative items pertinent to the Plan. She indicated staff conducted research by consulting with Mercer and utilizing available resources from the National Association of Government Defined Contribution Administrators (NAGDCA). She indicated there were no notable legislative items currently on the table, but several potential items could be considered by the next upcoming congressional session. She noted President Obama's budget proposal from his State of the Union address, which recommended that retirement savings accounts be capped at 3.4 million dollars. She indicated that any movement by Congress on this recommendation was unlikely due to the current political climate. She noted a similar item that could potentially be considered by Congress was the Secure

Annuities for Employment (SAFE) Act. She stated this potential legislation, originally introduced and sponsored by Senator Orin Hatch, proposed that employers without existing 401(k) plans could establish “starter 401(k) plans” where employees could save up to \$8,000 per year without having the same administrative burdens of a traditional 401(k) plan. Mr. Mumma asked whether this type of 401(k) plan was required or optional. Mr. Montagna stated it was optional. He also noted another optional portion of the SAFE bill was geared toward state and local governments by giving them the option of being able to fund their pension obligations by purchasing contracts with insurance companies.

Mr. Ciranna asked if there was any legislation that staff would propose the Board would need to take a stance on, whether at the state or federal level. Mr. Montagna stated there was none at present, but that the NAGDCA Board would be visiting Capitol Hill in the upcoming month which would provide a better sense of whether there was traction building for movement on tax reform legislation involving retirement issues. He noted that with the current makeup of a Republican Congress and Democratic executive branch, it was unlikely any legislation would be forthcoming until after the next the election.

A motion was made by Mr. Mumma, seconded by Mr. Cannon, to receive and file the report providing an update on legislative/regulatory items to defined contribution retirement plans; the motion was unanimously adopted.

11. BOARD REPORT 15-16: STAFF REPORT – PROJECTS & ACTIVITY REPORT

Ms. Chang presented the new version of the monthly staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects. She stated that in the month of January, staff worked on finalizing the 4th Quarter 2014 Newsletter and included information about the March 20, 2014 fund Change. She indicated staff was in the process of reviewing reports generated by Empower Retirement regarding beneficiary designations and was developing a communication action plan to encourage participants to update this information.

Ms. Chang reported that staff continued to work on a timeline for implementing the Auto-Enrollment Program (AEP). She then answered questions the Board had asked at the previous meeting regarding the AEP. She indicated that under the current proposal, eligible employees would receive a 30-day notice before an initial contribution was taken. She explained a participant would still have the option to withdraw from the AEP within the 90-day permissible withdrawal window even after they make a change to their account. She stated that Empower would continue to monitor their organization’s capability to allow Roth as an auto-enrollment contribution type and would relay the City’s desire to have Roth as an option for auto-enrollment.

Ms. Chang reported on pending administrative projects and stated staff was working on procurement processes for the Stable Value Fund management and Plan consulting services. She stated staff continued to research the underlying calculations for the CAP rate and would present an update to the Board. Ms. Chang indicated staff was in the

process of updating the Plan Document to include language regarding auto-enrollment, in-plan Roth conversion, and beneficiary claims.

A motion was made by Mr. Schoonover, seconded by Ms. Macy, to receive and file staff's update on Plan projects and activities; the motion was unanimously adopted.

12. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Moutes noted that at a prior Board retreat the New York City Deferred Compensation Plan presented its financial planning program. He stated his interest in revisiting that idea to see if it was something that could be implemented and made available to Plan members. Mr. Montagna stated that staff could research that information and return to the Board with recommendations.

Mr. Mumma presented a commendation to Mr. Canzano commemorating his contributions to the Plan and wished him a joyous and fulfilling retirement. He stated Mr. Canzano provided excellent leadership and expressed his appreciation for all that he accomplished for the Board. Mr. Canzano repeated his appreciation and gratitude to all Board members and staff. Mr. Montagna stated Mr. Canzano had always been an enthusiastic advocate for the plan, and was one who looked out for the best interests of Plan participants. He stated Mr. Canzano had served with distinction as Chairperson, and had contributed in changing the tenor of the Board and fostering a collaborative spirit. He stated the contributions that Mr. Canzano's leadership brought to the Plan had helped make the program one of best practice and excellence. He thanked him for all his support and wished him a happy retirement.

13. FUTURE MEETING DATES

The next Regular Meeting of the Board is set for March 17, 2015.

14. CLOSED SESSION

The Board entered into close session such that Board Counsel Curtis Kidder could provide an update related to the matter entitled *Estate of Francis Joseph Bolan* (Los Angeles Superior Court No. BP 151381). Upon returning from Closed Session, Mr. Kidder reported no actions were taken by the Board related to this matter.

15. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Mumma, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:44 a.m.*

Minutes prepared by staff member Matthew Vong.