CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF DECEMBER 18, 2018
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:
John Mumma, Chairperson
Raymond Ciranna, First Provisional Chair
Wendy G. Macy, Third Provisional Chair
Joshua Geller
Hovhannes Gendjian
Neil Guglielmo

Not Present:
Thomas Moutes, Vice-Chairperson
Robert Schoonover, Second Provisional Chair
Linda P. Le

PERSONNEL DEPARTMENT STAFF
Jody Yoxsimer, Assistant General Manager
Steven Montagna – Chief Personnel Analyst
Matthew Vong – Senior Personnel Analyst I
Daniel Powell – Personnel Analyst
Kevin Hirose – Personnel Analyst

OFFICE OF THE CITY ATTORNEY
Curtis Kidder – Assistant City Attorney

MERCER INVESTMENT CONSULTING
Devon Muir – Principal

VOYA FINANCIAL
Kelly Montgomery – Client Relationship Manager
La Tanya Harris – Registered Representative
Luis Chaves Guzmán – Participant Engagement Consultant

1. CALL TO ORDER

John Mumma called the meeting to order at 9:02 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Hovhannes Gendjian requested that the November 20, 2018 minutes regarding the Quarterly Investment & Economic Review: September 30, 2018 (Item #5), third paragraph is revised from "assets were approximately $260 million" to "assets increased by approximately $260 million."

A motion was made by Mr. Gendjian, seconded by Neil Guglielmo, to approve the minutes of the November 20, 2018 meeting; the motion was unanimously adopted.

4. PLAN ADMINISTRATOR QUARTERLY REVIEW: SEPTEMBER 30, 2018

The Third-Party Administrator quarterly review from Voya Financial (Voya) for the third quarter of 2018 was presented by Kelly Montgomery, Client Relationship Manager; La Tanya Harris, Registered Representative; and Luis Chaves Guzmán, Participant Engagement Consultant. Ms. Montgomery began by reporting on Plan Goals and Metrics and indicated the Deferred Compensation Plan (DCP) was presently tracking below target to reach its goal of increasing participation by 6% from the prior fiscal year (FY), which equates to an average of 274 new participants per month. She indicated that new enrollments totaled 673 for the quarter. She reported the DCP was also presently tracking below target to reach its goal of increasing participant contributions by 0.5%, from 6.85% to 7.35%. She stated the current participant contribution rate is at 6.91%. She indicated that Voya will release information to participants about the annual contribution limit increase for 2019 and promote the use of the percent of pay feature. She stated the DCP is on target for reducing participant distributions by 0.5%, from 3.1% to 2.6%, from the prior FY, and tracking below target to reduce outgoing rollovers by 0.5%. She stated there were 159 rollovers during the third quarter.

Ms. Montgomery continued with DCP highlights, reporting that assets were at $6.6 billion. She stated there were 46,488 participants with an average participant account balance at $142,476. She indicated the average loan balance was $14,885. She stated the total participation rate was 75%, with the average pre-tax deferral at $310.56, and the average Roth deferral at $164.96. She next provided a brief overview of participation by age, City department, and Memorandum of Understanding (MOU), and indicated there are opportunities to improve participation within under-represented groups.

Mr. Guglielmo inquired how the demographic data, specifically in regards to age groups compares to DCP peer groups. Ms. Montgomery stated the information will be researched and provided in future quarterly reporting.

Ms. Montgomery next reported on contribution amounts, noting the DCP had 31,462 participants contributing during the third quarter. She discussed contribution amounts by each age group separated by those who contributed a percentage of pay and those who contributed a flat dollar amount. She indicated the next quarterly report will include information relating to the number of participants that contribute the maximum deferral for the year. She reported on participant distributions and provided a breakdown by disbursement type: full, installment, and partial distribution. She discussed participant rollovers and the top ten external financial institutions to which participants transferred their assets. She continued by reporting on unforeseeable emergency withdrawal requests and the number of those approved and denied, with the top withdrawal reason being mortgage foreclosure/eviction. She stated that denied requests were mostly due to supporting documentation not being provided.

Ms. Montgomery reported on the balances by investment, transfer activity by investment, and participant balances by number of investments. She stated the risk-based portfolios have a high participation rate, which demonstrates diversification of holdings. She stated that for there were 4,562 participants with a balance in the Aggressive Portfolio. She indicated the historical loan data sheet is a new component of the quarterly report. She indicated that 7,232 participants have one loan, 6,043 participants have two loans, and then provided further details as to the historical data of participant loans. She next reported on the Self-Directed Brokerage Option (SDBO) and discussed quarter over quarter statistics.

Mr. Guzmán reported on participant engagement and interaction with the retirement calculator. He stated that 1,864 participants took action after interacting with the online retirement calculator. He next reviewed engagement statistics regarding phone calls, mobile application usage, and the DCP web page utilization. Ms. Montgomery continued with reporting on the top ten reasons for call center contacts and statistics regarding paperless transactions. She also indicated that survey data collected at the end of calls shows customer satisfaction was at 98% for September 2018.

Mr. Mumma asked how total DCP transactions compare to similar plans. Ms. Montgomery responded that she would research this and report back. Mr. Guglielmo inquired if the DCP completed benchmarking surveys against peer groups before. Steven Montagna responded that staff participates in the National Association of Government Defined Contribution Administrators (NAGDCA) survey and other surveys. He further stated that staff has considered reaching out to a select group of peers to create comparable benchmarks and metrics.

Mr. Guglielmo inquired if any research has been conducted on having an employer matching contribution as he believes that this may encourage and increase participation. He also asked if there was any peer data on plans that provide employer matching contributions. Mr. Montagna indicated that this data should be available and staff would report back to the Board.

Ms. Harris reported that during the quarter 97 site visits were held by the local retirement counselors. She indicated that in total there were 8,081 participant interactions that resulted from site visits, phone calls, counter service, and other outreach efforts.

5. BOARD REPORT 18-50: EVALUATION OF RESPONSES TO PROCUREMENT FOR FDIC-INSURED SAVINGS ACCOUNT OPTION

Daniel Powell reported that staff had completed its review of responses to the Request for Proposals (RFP) for FDIC-Insured Savings Accounts. He indicated that responses were received from Bank of the West, East West Bank, and Union Bank, each of which was found to be reliable and capable providers. He indicated that during the evaluation process staff became aware of an issue involving a key benchmark used for establishing crediting methodologies for interest rates. He indicated that staff recommended that the Board direct staff to review and report back during the Board's January 15, 2019 meeting, the potential for establishing a common crediting methodology and crediting contingency prior to awarding the contract with the banks.

Mr. Powell indicated that the FDIC Insured Saving Account option currently has two providers, Bank of the West and East West Bank, whose contracts are set to expire in September 2019. He indicated that according to the DCP Investment Policy Statement this option should normally have three providers, with assets divided evenly between each.

Mr. Powell stated the Board approved the RFP earlier this year and that the RFP was released on May 29, 2018, with responses due by July 20, 2018. He indicated that staff evaluated and scored the responses based on evaluation criteria adopted by the Board. He stated Mercer Investment Consulting (Mercer) assisted with evaluating the technical aspects of the RFP and they concurred with staff's finding that all three banks were viable service providers.

Mr. Guglielmo noted that Bank of America attended the pre-proposal RFP conference and asked if staff was aware why they did not respond. Mr. Powell responded that staff's understanding is that they were not willing to conform to the fund wiring requirement. Devon Muir stated that in his experience very few banks are interested in deposits and the DCP was successful in obtaining three respondents. He indicated that very large banks have an ample source of funds and do not feel obligated to alter their processes to the parameters set forth in the RFP. He stated that assuming there is a continued trend towards a higher interest rate environment, there may be a higher level of interest in the future.

Raymond Ciranna noted the scoring given to Union Bank on the Regulatory and Contractual Actions criteria and inquired if there were any issues of concern. Mr. Powell responded that staff was looking for specific content and thorough answers within the RFP responses. He indicated that Union Bank referred some of their responses to their Security and Exchange Commission filing, which did not directly provide the information as requested.

Mr. Powell reported on the performance exam portion of the RFP and indicated that the exams provide staff the opportunity to meet with the banks to address certain RFP topics in more detail. He indicated that during this process staff learned about concerns relating to the future of the London Interbank Offered Rate (LIBOR). He explained that LIBOR is an interest rate index based on the interest rate that certain London banks offer each other for short term loans and the rate is reported daily on a voluntary basis by the banks. He stated that LIBOR came under scrutiny in 2012 when it was discovered that some banks misreported their rates to give the impression of credit worthiness and increase profits. He indicated that regulators and the financial services community have speculated that LIBOR may cease to exist or be replaced within the next few years.

Mr. Muir further indicated that LIBOR involves twenty banks self-reporting on what they would be able to lend and what they could borrow from one another overnight at different maturities. He stated that given that because the banks report what they could charge rather than what they did charge, the potential for manipulation exists and in 2012 it was discovered that a few participants within these organizations were manipulating rates at the margins. He explained that manipulation at basis points or even at tenths of basis points on billions of dollars of assets or outstanding loans could have a material effect on a company's earnings. He indicated that since 2012, there has been reform and that British regulatory authorities have asked banks to continue self-reporting through 2021. He further noted there is over $200 trillion of financial transactions tied to LIBOR and that there is uncertainty as to what would replace it if it goes away. He indicated the United States uses the Federal Funds Rate (Fed Funds), but it is not applicable to international investors. He stated the other possibility is the Secured Overnight Financing Rate (SOFR), but this has far less volume attached to it.

Mr. Muir stated that according to financial publications such as the Wall Street Journal or New York Times, the belief is LIBOR will cease to exist beyond 2021. However, during the performance exams, the banks were more skeptical about LIBOR ending due to the volume of transactions tied to it. He stated the DCP should have a contingency plan to allow for uniformity across the various rates should LIBOR cease to exist. He also indicated that Bank of the West quoted on a Fed Funds rate, which is typically lower than LIBOR.

Mr. Mumma inquired what Mercer anticipates as the contingency plan. Mr. Muir responded that they will have a discussion with the banks and request to use LIBOR as the current basis with a common methodology. He indicated that should LIBOR cease to exist during the term of the contract, the Fed Funds rate would be the next logical reference rate with some agreed upon additional margin.

Mr. Mumma next inquired if a contingency plan will be incorporated or the Board reserves that right to renegotiate should LIBOR will cease to exist into the contract. Mr. Montagna responded there is still some uncertainty on what the next rate mechanism would be but the objective would be to develop a common contingency across all three institutions.

Mr. Ciranna noted that Bank of the West quoted a Fed Funds rate and asked if there would be any resistance from them if the DCP requests that they use LIBOR. Mr. Montagna responded that it was not clear but that during the performance exams all three banks appeared very willing to discuss the crediting rate methodology. He indicated that staff did not continue these conversations with greater specificity until the Board had reviewed and provided direction to staff. Mr. Muir indicated that East West Bank's proposed rate is LIBOR minus three basis points and Union Bank's proposed rate is LIBOR minus 15 basis points. He stated he believes Bank of the West would be willing to re-quote with a rate that is LIBOR minus some number of basis points.

Mr. Ciranna inquired if there were concerns with East West Bank's long-term deposit credit rating. Mr. Muir responded that Mercer does not have concerns, as its credit rating is stable and within the investment grade category. He commented that although a higher rating is preferred, East West Bank has credit protection and is backed by the FDIC. He further stated the bank is ranked within the top 50 banks in terms of assets, as well as deposits.

Mr. Ciranna next inquired if any of the banks raised any concerns with only holding a third of the total assets. Mr. Muir responded that although the banks would be open to an amount greater than a third of all assets, given the current market environment, he believes they actually prefer to not take on all deposits. Mr. Powell concluded by stating the banks discussed how deposits would be deployed, the process for insuring they are lending to credit worthy organizations, and how they prepare for abnormal market environments.

Following this discussion, **a motion was made by Mr. Guglielmo, seconded by Mr. Gendjian, to (a) receive and file the report regarding evaluation of proposals from Bank of the West, East West Bank, and Union Bank to be providers for the FDIC-Insured Savings Account investment option; the motion was unanimously adopted. A subsequent motion was made by Mr. Ciranna, seconded by Mr. Guglielmo, to (b) direct staff and the consultant to review the potential for establishing a common crediting methodology and crediting contingencies for all three service providers and report back at the Board's January 15, 2018 meeting; the motion was unanimously adopted.**

6. BOARD REPORT 18-51: EVALUATION OF RESPONSES TO PROCUREMENT FOR FINANCIAL AUDITING SERVICES

Matthew Vong reported that at its March 20, 2018 meeting, the Board approved staff's proposed plan to procure for a DCP auditing firm. He indicated the DCP conducted an audit in 2003, and since then, staff learned that ongoing plan financial audits are more common and comparable plans conduct audits on an annual basis. He stated that Voya indicated approximately 50% of their large public sector plans and approximately 90% of their large private sector plans conduct regular audits, with a majority conducted on an annual basis.

Mr. Vong reported that at its May 15, 2018 meeting, the Board authorized staff to develop an RFP for financial auditing services, which was released on August 14, 2018. He stated that two of the five firms attending the pre-proposal conference, held on September 12, 2018, submitted an RFP response and included Crowe LLP (Crowe) and Turner, Warren, Hwang & Conrad AC (TWHC). He indicated staff evaluated and scored the RFP responses based on evaluation criteria adopted by the Board. He indicated performance exams were conducted involving staff and Segal Consulting (Segal) meeting with the two respondents to discuss their processes for developing and executing financial audits.

Mr. Vong stated that staff recommends the selection of Crowe due to their experience with larger defined contribution plans and public sector audits. He indicated that Crowe conducts over 1,200 financial audits annually, of which 900 are defined contribution plans. He indicated that Crowe has working relationships with multiple Third-Party Administrators, including Voya. He indicated that Crowe price proposal was approximately 8% higher than TWHC listed price and that TWHC offered a performance guarantee if reporting deadlines are not met. He stated that Crowe indicated they are open to a performance guarantee but did not provide details.

Mr. Vong stated that DCP financial transitions have grown significantly since 2003 and that staff anticipates growth to continue. He stated that institutionalizing an annual audit process will ensure the highest level of validation of work processes and financial transactions, assist the Board and staff in ongoing monitoring and identifying opportunities for improving oversight, and provide assurance to DCP participants that their accounts are properly administered. He indicated the DCP has adequate resources to fund annual audits and that staff recommends the Board approve staff to negotiate and establish a contract with Crowe LLP for a three year term, with an option to renew for an additional two years.

Mr. Ciranna inquired if Segal and staff expected to receive greater interest in the RFP, and the reasoning behind only receiving two RFP responses. Mr. Montagna responded that Wendy Young Carter from Segal had informed staff that based on her experience the RFP may not receive a large amount of respondents. Mr. Vong stated that that one of the firms that attended the pre-proposal conference was interested in subcontracting opportunities.

Mr. Mumma asked if the initial audit does not provide any substantive information, is the DCP required to continue annual audits. Mr. Vong responded the contract would not obligate the DCP to complete audits on an annual basis. Curtis Kidder stated the City's Standard Provisions allow the City to terminate a contract for either cause or convenience.

Joshua Geller inquired about conducting audits on a different schedule versus annually and proposed the contract be written to provide flexibility to the Board and provide an evaluation period to consider available options. He also inquired about the pricing breakdown, whether the price was for annual audits or if this was a retainer, regardless if an audit was conducted or not. Mr. Montagna responded that it is the Board's decision on continuing audits beyond the initial year and the contract would include language regarding audit schedule flexibility. He stated the price is only for services performed, not a retainer.

Mr. Guglielmo inquired about outreach efforts. Mr. Montagna responded that staff has received guidance on maintaining neutrality when conducting procurements and not recruiting specific firms. He stated the City uses the Los Angeles Business Assistance Virtual Network, where firms can be notified of contracting opportunities with the City.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Geller, to (a) approve the selection of Crowe LLP (Crowe); (b) instruct staff to negotiate a contract with a three-year term but include the option for the Board to either elect or defer a second-year and/or third-year audit; and (c) authorize the Board Chairperson to execute said contract on behalf of the Board, subject to agreement between the City and the provider as to all applicable terms and conditions and all necessary approvals; the motion was unanimously adopted.**

7. BOARD REPORT 18-52: PARTICIPANT ENGAGEMENT COMMITTEE

Mr. Powell reported that at its November 20, 2018 meeting the Board directed staff to draft revisions to the Board's Plan Governance Policies/Bylaws to create a new Participant Engagement Committee (Committee), whose role would be to oversee and provide guidance in the development of new engagement, communication, and outreach strategies. He stated that upon establishing authority for this Committee, the Board Chairperson's would appoint members. He indicated that once the Committee is constituted, staff plans to hold an initial meeting in the first quarter of 2019 to focus on the year's communication plan. He stated meetings would be held on a quarterly basis.

Following this discussion, **a motion was made by Mr. Guglielmo, seconded by Mr. Gendjian, to approve proposed revisions to the Board's Plan Governance Policies/Bylaws ("Bylaws") to establish a new Participant Engagement Committee; the motion was unanimously adopted.**

8. BOARD REPORT 18-53: NATIONAL RETIREMENT SECURITY WEEK CAMPAIGN

Kevin Hirose reported that the 2018 National Retirement Security Week (NRSW) campaign, held on October 21 through November 9, 2018, was extremely successful and the "Name That Year" quiz engaged a total of 3,264 individuals, a record for the DCP for this campaign. He stated the Mayor's video launching NRSW was beneficial as was the City Council's recognition of the event. He indicated the NRSW campaign also promoted the new DCP Resource Center, which helped prompt a total of 9,271 unique visitors to the site. He concluded by stating that staff has learned more about promotion and reaching out to different populations and looks forward to building upon this year's success for the 2019 NRSW campaign.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Guglielmo, to receive and file staff's report regarding the results of the 2018 National Retirement Security Week campaign; the motion was unanimously adopted.**

9. BOARD REPORT 18-54: STAFFING COST REIMBURSEMENTS THIRD QUARTER 2018

Mr. Vong reported that for the quarter ending September 30, 2018, staff is using the Special Rates (40) for Fiscal Year 2017/18, due to the City Controller not releasing the Special Rates (41) for Fiscal Year 2018/19. He stated that adjustments may be necessary after the Special Rates (41) are adopted and will be addressed in a future quarterly reconciliation.

Following this discussion, **a motion was made by Mr. Guglielmo, seconded by Mr. Gendjian, to approve reimbursements from the Reserve Fund to the Personnel Department for $182,215.72 and City Attorney for $37,731.65 for the quarter ending 09/30/18; the motion was unanimously adopted.**

10. BOARD REPORT 18-55: PLAN PROJECTS AND ACTIVITIES REPORT: NOVEMBER 2018

Mr. Powell stated the fourth quarter newsletter will be issued along with participant statements in mid-January. He stated that a “Boost Your Savings” email was released Citywide on December 6, 2018, which promoted the percent-of-pay feature and 2019 contribution limits. He reported that at its November 20, 2018 meeting, the Board approved the DCP Resource Center as the main landing page and that staff is working with Voya on communications announcing the change, effective on February 1, 2019. He indicated Voya developed a survey to solicit participant feedback and is working on other website enhancements.

Mr. Vong reported that staff is in the process of developing its report on the Deemed IRA and anticipates being able to provide recommendations to the Plan Governance and Admnistrative Issues Committee in the first quarter of 2019. Mr. Hirose reported that staff along with Segal is continuing to work on the proposed revisions to the Plan Document. He stated that pending review by the Board’s legal counsel on the proposed revisions, staff anticipates being able to provide recommendations to the Plan Governance and Administrative Issues Committee in the first quarter of 2019.

Following this discussion, **a motion was made by Mr. Gendjian, seconded by Mr. Geller, to receive and file the staff monthly activity report for October 2018, including updates regarding Communications; Project Updates; Completed Projects/Meeting Calendar; Staffing; and Committee Assignments; the motion was unanimously adopted.**

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Guglielmo requested that comparable benchmark data be provided to the Board of similar governmental plans. Mr. Montagna responded that staff could provide data and a plan on how to incorporate it into future quarterly reports.

12. ADJOURNMENT

The meeting adjourned at 10:39 a.m.

Minutes prepared by staff member Kevin Hirose