

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF MARCH 19, 2019
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:

John Mumma, Chairperson
Thomas Moutes, Vice-Chairperson
Raymond Ciranna, First Provisional Chair
Robert Schoonover, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Hovhannes Gendjian

Not Present:

Joshua Geller
Neil Guglielmo
Linda P. Le

PERSONNEL DEPARTMENT STAFF

Jody Yoxsimer, Assistant General Manager
Steven Montagna, Chief Personnel Analyst
Isaias Cantú, Senior Management Analyst II
Daniel Powell, Personnel Analyst
Kevin Hirose, Personnel Analyst

OFFICE OF THE CITY ATTORNEY

Curtis Kidder, Assistant City Attorney

MERCER INVESTMENT CONSULTING

Ana Tom-Chow, Associate

VOYA FINANCIAL

Michelle Williams, Vice President Strategic Relationship Management
Kelly Montgomery, Client Relationship Manager
Susan Farrell, Plan Consultant
La Tanya Harris, Registered Representative
Luis Chaves Guzmán, Participant Engagement Consultant

1. CALL TO ORDER

John Mumma called the meeting to order at 9:05 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Hovhannes Gendjian, seconded by Robert Schoonover, to approve the minutes of the February 19, 2019 meeting; the motion was unanimously adopted.

5. BOARD REPORT 19-09: INVESTMENT MANAGER SEARCH UPDATE MARCH 2019

Note: Agenda item #5 was taken out of order and presented prior to agenda item #4.

Isaias Cantú reported that at its July 17, 2018 meeting, the Board requested that the Investments Committee (Committee) develop recommendations for the upcoming Deferred Compensation Administration (DCP) investment menu investment manager searches. The Board requested that the recommendations consist of the type of search process, either mutual fund or institutional manager procurement, for each investment mandate, the proposed investment and evaluation criteria for each mandate, and provider selections following execution of the search process. He stated that the Committee convened on September 17, 2018, and provided its recommendations with respect to fund search types and criteria for each mandate. He explained the investment mandates were separated into three investment search categories: institutional manager procurement, mutual fund search, and a combination of both. He continued that at its October 16, 2018 meeting, the Board adopted the Committee's recommendations and directed staff to prepare a Request for Proposal (RFP) for institutional managers for applicable investment mandates as approved by the Board.

Mr. Cantú indicated that a separate RFP would be issued for the DCP Stable Value Fund, which expires on June 30, 2020. He specified that staff and Mercer Investment Consulting (Mercer) had been working on developing this RFP for approval at the Board's April 16, 2019 meeting, and a separate timeline for that procurement would be provided at that time.

Mr. Cantú next indicated that staff recommended the Board suspend investment manager presentations for the remainder of 2019. He explained that suspending the presentations would help to avoid the appearance of incumbent investment managers having access to the Board not available to non-incumbent investment managers. Steven Montagna commented that staff's proposal was to suspend presentations until January 2020, thereby allowing for the conclusion of the investment manager searches.

Raymond Ciranna asked how the Board would address any concerns with the investment managers during the suspension period and asked for Mercer's input regarding this proposal. Mr. Montagna responded that Mercer analyzes and reports on all material issues involving the City's investment managers through its quarterly report updates. He stated that if material issues with any investment manager occurred, Mercer would bring that to the Board's

immediate attention and if an investment manager presentation was deemed necessary it could be scheduled. Ana Tom-Chow reiterated that Mercer actively keeps track of all the investment managers and updates DCP staff on items of note and did not have concerns with suspending the investment manager presentations.

Mr. Schoonover inquired about how other plans operate and if they conduct investment manager presentations similar to the DCP. Michelle Williams from Voya Financial (Voya) stated some plans have investment managers present before their governing entities but others do not. Thomas Moutes stated during his tenure in LACERS they brought in investment managers half way through their term. Mr. Ciranna indicated that Fire and Police Pensions brings in investment managers during the term of the contract, during times of underperformance, and during contract renewal. Ms. Tom-Chow stated that plans that hold presentations do not regularly have every investment manager present. She stated that investment manager performance is readily available for investors through other forms of communication. Curtis Kidder commented that the Board is not neglecting its oversight responsibilities by suspending the investment manager presentations because there is a constant review process conducted by Mercer on investment manager performance.

Mr. Ciranna inquired about the termination dates of the current investment managers. Mr. Montagna responded that, outside of the Stable Value Fund provider and FDIC-Insured Savings bank providers, none of the City's incumbent managers are tied to an expiring contract date as they are all mutual fund providers. Mr. Ciranna asked for additional details regarding the timing of the searches. Mr. Montagna responded that the searches would be completed this year. He indicated the RFP for the Stable Value Fund would be brought for review at the Board's April 16, 2019 meeting. He stated the RFP for other investment mandates requiring an institutional manager procurement would be brought for review at the Board's May 21, 2019 meeting. He stated Mercer has already started the process for the investment mandates that were approved by the Board for a mutual fund search only process. He indicated that the mutual fund searches would be referred to the Investments Committee for their recommendations and the Investments Committee meeting was anticipated to occur within the next few months.

Following this discussion, **a motion was made by Mr. Moutes, seconded by Mr. Gendjian, to receive and file the March 2019 investment manager search update; the motion was unanimously adopted.** A motion was made by Mr. Gendjian to suspend investment manager presentations at Board meetings through the end of 2019; the motion failed due to lack of a second.

Mr. Moutes asked if the Board was open to amending Board Report 19-09, item (b) to recommend suspending investment manager presentations for 2019 with the provision that staff and Mercer notify the Board of any situation(s) with the investment managers so that the Board could take any necessary action. Mr. Montagna advised the Board that one option was to suspend the May 21, 2019 investment manager presentation only since selection of mutual fund investment managers should be determined by the next scheduled presentation date after May. Mr. Mumma indicated this item would be revisited later in the meeting.

4. PLAN ADMINISTRATOR QUARTERLY REVIEW: DECEMBER 31, 2018

Note: Agenda item #4 was taken out of order and presented following agenda item #5. Ms. Macy arrived during the Third-Party Administrator (TPA) Quarterly Review.

This item was presented by Ms. Williams, Vice President Strategic Relationship Management; Kelly Montgomery, Client Relationship Manager; Susan Farrell, Plan Consultant; La Tanya Harris, Registered Representative; and Luis Chaves Guzmán, Participant Engagement Consultant. Ms. Williams began by reporting on goals and metrics and indicated the DCP was presently tracking below target to reach its goal of increasing the number of total new enrollments 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 654 for the quarter and 1,327 for the fiscal year. 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 6.87%. She indicated that Voya will continue to promote use of the percent-of-pay contribution feature. She stated the DCP is on target for reducing participant distributions by 0.5%, from 3.1% to 2.6%. She indicated that 1.14% of the retiree population has elected to take a full distribution and a majority of retirees are choosing to stay in the Plan.

Mr. Ciranna asked for the number of closures of beneficiary and QDRO accounts during the quarter. Ms. Williams did not have the information available but indicated it would be included in future quarterly reports. She reported on asset retention, stating that the DCP is tracking a little below target to reduce outgoing rollovers by 0.5%. She stated there had been 289 rollovers (2.4% of retirees) during the quarter.

Ms. Williams continued with DCP highlights, reporting that assets dropped from \$6.6 billion to \$6.0 billion due to market declines. She stated there were 46,904 participants with an average participant account balance of \$128,655. She stated the total participation rate was 72%, with an overall average deferral rate as a percentage of pay at 6.87%, with the average pre-tax deferral at \$307.32 (7.7% of pay), and the average Roth deferral at \$167.93 (5.4% of pay). Mr. Montagna noted a revision to the DCP's participation rate and asked Daniel Powell to provide details. Mr. Powell stated that the City's confidentially policy for sworn employees prevents the disclosure of sworn employee's addresses and, as such, Voya's recordkeeping system was treating them as incomplete records and excluding them from the eligible count, thereby overstating the participation rate. He indicated the issue had been corrected.

Ms. Williams provided a brief overview of participation by age, City department, Memorandum of Understanding (MOU), and population composition, and indicated there were opportunities to improve participation with under-represented groups. She reviewed contribution amounts noting the DCP had 31,118 participants contributing as a dollar amount and 1,057 participants contributing as a percentage of pay. Mr. Montagna indicated that future DCP Strategic Initiatives would likely involve a goal for increasing the number of DCP participants contributing as a percentage of pay. Mr. Powell indicated that the DCP Resource Center has a retirement

calculator and information regarding the percent-of-pay contribution feature, which would also be highlighted in future DCP promotional materials and enrollment forms.

Ms. Williams next reviewed participant distributions and provided a breakdown by disbursement type: full, installment, and partial distribution through all four quarters in 2018. She reported on participant rollovers and on the top ten external financial institutions to which participants transferred their assets. Mr. Mumma commented that with a high number of participants expected to leave the Deferred Retirement Option Plan (DROP) within five years, staff should look into future outreach efforts to attract these individuals into the DCP. Ms. Williams continued by reporting on rollover activity to the City's three pension systems. She reviewed unforeseeable emergency withdrawal requests and the reasons for approval versus denial. She indicated the top withdrawal reason was mortgage foreclosure/eviction.

Ms. Williams then reported on account balances by investment, transfer activity by investment, participant balances by number of investments, and transfer activity by investment. She stated that the DCP has a large number of participants investing in the Stable Value Fund and Large-Cap Fund. She explained that new participants enrolled in the DCP typically select one of the risk-based profile funds. She indicated the historical loan data sheet is a recent addition to the quarterly report and then reviewed loan statistics. Finally she briefly reviewed Self-Directed Brokerage Accounts and quarter-over-quarter statistics.

Luis Chaves Guzmán then discussed participant engagement and communications and provided an overview on the "Save More Journey" email campaign. He indicated the overall result was that 7% of participants made a contribution change after opening the email. He reviewed retirement calculator statistics and stated 32% of participants who engaged with the calculator either changed their contribution amount, changed their fund allocation, or rolled money into the DCP. He reviewed engagement statistics regarding phone calls, mobile application usage, DCP web page utilization, and emails.

Ms. Williams noted the top ten reasons for call center contacts and statistics regarding paperless transactions. She also reviewed survey data collected at the end of calls and reported on customer satisfaction rates. La Tanya Harris reported that during the quarter, 92 site visits were held by the local retirement counselors, which resulted in 224 enrollments. She stated that local counselors were able to conduct new outreach efforts at the Los Angeles Central Library during staff development day; at the Garland Building and other satellite locations for Office of Finance employees; at Council Offices Four and Eight; and at the Department of Recreation and Parks during new employee orientation. She indicated that in total there were 7,536 total participant interactions during the quarter.

6. BOARD REPORT 19-10: STAFFING COSTS REIMBURSEMENTS FOURTH QUARTER 2018

Kevin Hirose stated that staff recommended approval of reimbursements from the DCP Reserve Fund to the Personnel Department for \$159,226.41 and to the City Attorney for \$30,496.65 for the quarter ending December 31, 2018 (Q4 2018). He indicated the City Controller's Special

Rates (41) had been updated for Fiscal Year 2018-19 with reimbursement percentages for the Personnel Department and City Attorney at 99.39% and 87.45%, respectively. He stated the reimbursement for Q4 2018 included an adjustment reflecting the updated percentages.

Following this discussion, **a motion was made by Mr. Schoonover, seconded by Mr. Moutes, to approve reimbursements from the Reserve Fund to the Personnel Department for \$159,226.41 and City Attorney for \$30,496.54 for the quarter ending December 31, 2018, including prior quarter adjustments to indirect cost calculations; the motion was unanimously adopted.**

7. BOARD REPORT 19-11: PLAN PROJECTS AND ACTIVITIES REPORT: FEBRUARY 2019

Mr. Hirose reported that on February 20, 2019, Voya released an informational email to DCP participants regarding the investment choices that were available to participants based on their risk tolerance level. He provided an update on the LA457.com Resource Center and stated there had been an increase in website traffic since the Resource Center was announced as the main landing page for the DCP. Mr. Powell explained that the main website had previously been redirected to the Voya login site and, with the change, participants were now being directed to the Resource Center as the primary gateway to their account.

Following this discussion, **a motion was made by Mr. Moutes, seconded by Mr. Gendjian, to receive and file the monthly projects and activities report for February 2019, including updates regarding Communications; Activities; 2019 DCP Strategic Initiatives Update; Board Information Requests; Completed Projects/Meeting Calendar; Staffing; and Committee Assignments; the motion was unanimously adopted.**

5. BOARD REPORT 19-09: INVESTMENT MANAGER SEARCH UPDATE MARCH 2019

Note: Discussion on agenda item #5 was continued. Mr. Mumma briefly provided an overview to Ms. Macy over the Board's previous discussion regarding suspending investment manager presentations. Mr. Montagna indicated another option the Board may consider would be to have the one of the FDIC-Insured Savings Account vendors present at the Board's May 21, 2019 meeting. Mr. Moutes recommended the Board take no action and direct staff to schedule investment manager presentations as deemed appropriate by the Board. Mr. Montagna stated if the Board is requesting that the next presenter be one of the FDIC-Insured Savings Account providers, no Board action is necessary. Mr. Mumma asked if the Board approves the schedule of presentations. Mr. Montagna responded that the Board approves the frequency of presentations but the schedule is determined by staff based on provider availability and where providers fall within the presentation cycle.

8. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna requested that review of the investment managers presentation schedule be referred to the Investments Committee prior to Board presentation.

9. ADJOURNMENT

The meeting adjourned at 10:28 a.m.

Minutes prepared by staff member Kevin Hirose