

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF JULY 16, 2019
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:

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

Not Present:

Linda P. Le
Neil Guglielmo

PERSONNEL DEPARTMENT STAFF

Steven Montagna, Chief Personnel Analyst
Daniel Powell, Senior Personnel Analyst I
Sandy Kaur, Administrative Intern II

OFFICE OF THE CITY ATTORNEY

Miguel Dager, Deputy City Attorney
Charles Hong, Assistant City Attorney

MERCER INVESTMENT CONSULTING

Devon Muir, Principal
Ana Tom-Chow, Associate

VOYA FINANCIAL

La Tanya Harris, Registered Representative
Luis Chaves Guzmán, Participant Engagement Consultant

1. CALL TO ORDER

John Mumma called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Tom Moutes, seconded by Bob Schoonover, to approve the minutes of the June 18, 2019, meeting; the motion was unanimously adopted.

4. PLAN ADMINISTRATOR QUARTERLY REVIEW: MARCH 31, 2019

Daniel Powell presented the Plan Administrator Quarterly Review and began with an overview of Deferred Compensation Plan (DCP) statistics as of March 31, 2019, with trending data back to the first quarter of 2018. He highlighted the rebound of DCP assets by around half a billion dollars. He noted that there had been a steady increase in the total number of contributing participants and average account balance.

Mr. Powell reviewed a summary of DCP cash flows and noted that \$143 million moved into the DCP during the first quarter of 2019, which consisted largely of pre-tax contributions, roll-over contributions, and loan repayments. He also clarified that the fees consist of administration fees, loan fees, and recordkeeping fees.

Mr. Powell provided a brief overview of participation by various demographics, including age, department, and Memorandum of Understanding (MOU). He indicated that this is a helpful summary of where the opportunities are for engagement. He noted that since January 2018, there had been an increase in the number of participants utilizing the percent of pay feature. He stated that promoting percent-of-pay will continue to be a focus for the DCP.

Mr. Powell reviewed the unforeseen emergency withdrawal statistics and stated that requests were primarily made due to foreclosure or eviction. He explained that most rejected requests were based on invalid or insufficient supporting documentation. He then reviewed participant asset allocations and indicated that the DCP Large Cap Fund continues to be the investment option with the highest asset total, followed by the DCP Stable Value Fund.

Luis Chaves Guzman provided an overview of the new online enrollment process and its positive impact on participant elections. Mr. Powell noted that prior to this enhancement, online enrollment was done through a simple online form. He reported that through the new online experience, participants are actively guided through each step of the enrollment process. Mr. Chaves Guzman discussed how email campaigns are used to encourage engagement with the DCP. He reported that in the first quarter of 2019, 775 participants were included in the "Save More" email campaign. He noted that 9% of those participants took action to increase their savings rate as a result of the campaign. He also reviewed the new "Restart Savings" email campaign that encourages participants who have stopped saving to resume their contributions. He noted that it also resulted in 9% of those participants taking action to resume saving.

La Tanya Harris reported that in the first quarter of 2019, retirement counselors conducted 109 site visits, which resulted in 294 enrollments. She indicated that counselors were able to conduct outreach efforts to the following departments: Library, Street Services (Public Works),

General Services, Economic Workforce & Development, and Housing. She noted that all of these departments are among the ten departments with the lowest DCP participation rates. She indicated that in total, there were 6,967 total participant interactions during the quarter.

5. BOARD REPORT 19-26: INVESTMENT MANAGER SERVICES RFP

Mr. Montagna reported that staff has been working with the City Attorney's Office and Mercer to refine the Investment Manager Services Request for Proposal (RFP). He noted that the objective of the revised RFP is to be able to mirror the DCP's typical mutual fund search process. He indicated that when the RFP is released, proposers will be able to indicate whether they offer an institutional product that meets the minimum criteria for the mandate. He also indicated the RFP would notify the vendors that they need to ensure information about their fund is current in Mercer's investment manager database. He reported that this approach to the RFP would allow the Board to cast a wide net to consider all available options. He stated that staff recommended that the RFP include those searches presently identified as mutual funds only, thus expanding the scope of the searches for all core investment mandates.

Mr. Montagna noted that the Investments Committee had already begun reviewing the mutual fund search results; however, in consultation with Investments Committee Chair Ray Ciranna, he recommended pausing the mutual fund search until the new RFP process could be implemented which would include institutional products. At the conclusion of Mr. Montagna's presentation, Mr. Ciranna expressed his agreement with the recommendation.

Following the discussion, **a motion was made by Hovhannes Gendjian, seconded by Mr. Ciranna, to approve expanding combined institutional manager procurement and mutual fund search processes to include the Mid-Cap Value Equity, Mid-Cap Growth Equity, Small-Cap Value Equity, Small-Cap Growth Equity, International Small-Cap Equity, and International Emerging Markets Equity mandates; and (b) direct staff and the Investments Committee to work together to develop and submit a revised Core Investments Menu RFP for Board approval; the motion was unanimously adopted.**

6. BOARD REPORT 19-27: BOARD GOVERNANCE AND DECISION-MAKING AUTHORITY

Mr. Montagna reported that at its May 21, 2019, meeting, the Board requested a report from staff on information about increasing the independence of the Board in its decision-making authority to bring it closer in alignment to the models used for the City's three defined benefit plans. He provided a brief history of the DCP's evolution in governance structure from 1983 to 2015.

Mr. Montagna reported that the State of California Constitution provides plenary authority for retirement plans, which is different than the type of authority a supplemental retirement plan like the DCP possesses. He noted that the DCP Board still maintains broad authority over the program, but also that the program is subject to actions by the City Council and Mayor that apply to all City departments. He further stated that virtually all of the DCP's administrative

processes are performed by the Personnel Department in accordance with the Los Angeles Administrative Code (LAAC).

Mr. Montagna stated that if the Board would like to continue to explore authority and independence, he recommended that the Board determine which specific areas it would like to address. He noted that one potential area for further research is the issue of further clarifying the roles and responsibilities of the DCP trustees. He indicated that if the Board would like to explore these issues further it could do so through the Plan Governance and Administrative Issues Committee or through an ad hoc committee created specifically for this purpose.

Joshua Geller asked whether staff had identified any legal or regulatory issues that would require a formal codification of the Board's roles and responsibilities. Mr. Montagna responded that the LAAC provides a broad description of the Board's responsibility in overseeing the administration of the program and provides the Board with authority over the Plan Document. Mr. Geller asked if staff had any other findings that it wasn't confident enough to place in the report, but that might be helpful to the Board, especially in terms of insulating the DCP from future political interference. Mr. Montagna responded that the report included everything that was researched by staff, but he noted that this issue had also been reviewed by previous boards. He indicated that the program was created by the City Council, which has the ultimate authority over the DCP. He indicated that there is further protection provided by federal law requiring that DCP assets be held in trust.

Mr. Mumma asked Deputy City Attorney Miguel Dager whether it was necessary for the DCP's trust to identify the trustees. Mr. Dager responded that typically, a trust would have named trustees, but he would need to do further research to determine whether that was the case for the DCP's situation. Mr. Mumma inquired if there was litigation regarding the DCP, whether the responsible party would be the City Council or the Board. Mr. Dager suggested that the ultimate responsibility would seem to be with the City rather than the Board. Mr. Montagna added that the question isn't whether the Board has satisfied the Federal trust requirement, which it has, but how to create greater transparency around roles and responsibilities.

Mr. Ciranna expressed that he is uncomfortable with an established trust that did not define the roles and responsibilities of the Board. He further indicated that as fiduciaries of such a large program, they would benefit from greater clarity in their responsibilities. He suggested that the Plan Governance and Administrative Issues Committee review this issue further before the Board acts. Mr. Moutes expressed his general agreement with Mr. Ciranna and advocated for an ad hoc committee to allow for more candid discussions between Board members and staff since this issue has arisen before but not been resolved. Mr. Ciranna agreed with Mr. Moutes recommendation to form an ad hoc committee. Mr. Mumma agreed that he would convene an ad hoc committee to explore this issue further.

Following this discussion, **a motion was made by Mr. Geller, seconded by Mr. Moutes, to receive and file the report regarding Board governance and decision-making authority; the motion was unanimously adopted.**

7. BOARD REPORT 19-28: PARTICIPANT OUTCOME GOALS

Mr. Powell reviewed the DCP Fiscal Year (FY) 2018-19 goals related to participant outcomes. He indicated that the Board adopted a goal of increasing new enrollments by 6% year-over-year, but that the DCP was unable to meet the goal with 2,776 new enrollments. He reported that staff was still pleased with this figure since it was compared to a year with high engagement due to the Third-Party Administrator (TPA) transition. He stated that staff recommended setting new FY goals based on targeting populations with low participation rates. He noted that employees with less than one year of City service participate at a rate of 43%, which he noted is below the citywide rate of 73%. He indicated that staff recommended targeting the five City departments with the lowest participation rates, including the Mayor's Office, Council Offices, Public Works - Street Services, General Services, and Recreation and Parks. He further indicated that staff recommended increasing the participation of these numbers by 3% for the upcoming year. He reviewed the ongoing strategies for improving participation, like leveraging the new online Resource Center at LA457.com, expanding the Automatic Enrollment Program, promoting the new online enrollment experience, and increased outreach.

Mr. Powell reviewed the Board's adopted goal of increasing participant contributions from 6.85% to 7.35%. He indicated that the DCP missed the goal with contributions only increasing to 7.04%. He reported that newly enrolled participants tend to lower the average, so staff proposed revising the contribution rate calculation to include non-participants as a 0% contribution. He indicated that doing so would mean that any new enrollment would increase the contribution average instead of decreasing it.

Mr. Powell reported that through the second quarter of 2019, 1,841 participants had elected to save using the new percent-of-pay contribution feature. For FY 2019-20, he recommended setting a goal of reaching 3,000 participants using percent-of-pay, which staff believed to be achievable based on the previous quarter's trajectory. He reviewed the ongoing strategies for increasing average participant contributions, including the "save more" email campaign, the restart saving email campaign, and focusing on percent-of-pay.

Mr. Powell then discussed the Board's distributions goal. He indicated that the goal was to maintain the number of retirees who close their accounts at no more than 2.6% of the retiree population. He indicated that the DCP met this goal, with just 2% of retirees taking a full distribution of their account. He indicated that staff recommended that the goal for FY 19-20 be to maintain that account closure rate at no more than 2.5% of the retiree population. He reported the new Retirement Resource Center at LA457.com was developed to make the retirees feel included as an equal audience and that it will be used to provide custom messaging to retirees. He also indicated that staff would promote DCP's installment payment options as an alternative to one-time payouts.

Mr. Powell reported on the Board's goal of maintaining the number of outgoing rollovers to no more than 4.8% of the retiree population, which was met at 3.9% percent. He proposed that for

FY 2019-20, the Board adopt a goal of maintaining the outgoing rollover percentage to no more than 4.5% of the retiree population. He added that the strategies used to meet this goal are in alignment with the strategies used to meet the account closure goal.

Mr. Powell reported that staff is researching potential modifications to the contract with its TPA, Voya, to align its contractual performance guarantees with the participant outcome goals adopted by the Board each year. Mr. Mumma inquired whether implementing such a change would require action by the Board or Voya. Mr. Powell responded that it would require an amendment to the contract between the DCP and Voya, and that staff would seek direction from the Board before taking action. Wendy Macy commended the staff for setting difficult goals, especially concerning participation rates of employee groups that have traditionally been difficult to reach.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Gendjian, to (a) receive and file staff's report regarding DCP goals, metrics, and strategies related to participant retirement outcomes; and (b) to adopt staff's recommended participant outcome goals related to participation, contribution, distributions, and rollovers for FY 2019-20; the motion was unanimously adopted.**

8. BOARD REPORT 19-29: PLAN PROJECTS AND ACTIVITIES REPORT: JUNE 2019

Mr. Montagna shared that the DCP would be receiving a National Association of Government Defined Contribution Administrators (NAGDCA) Leadership Award for the DCP's 2018 National Retirement Security Week campaign, "Name That Year!" He also indicated that Mr. Powell presented a webinar on methods for using goals and data-driven processes to improve retirement outcomes for defined contribution plan participants. Mr. Montagna noted that Mr. Powell's webinar was one of the highest attended among NAGDCA members.

Mr. Montagna noted that with respect to staffing vacancies, two individuals had recently accepted positions with the DCP, one of whom is from the Housing and Community Investment Department and the other who is from the Controller's Office. Mr. Ciranna asked whether staff is looking into replacing the Management Analyst and Senior Personnel Analyst classification allocated for the DCP with the new Benefits Analyst and Senior Benefits Analyst classifications. Mr. Montagna responded that this was being considered.

Mr. Powell presented two videos to the Board for their review, the first of which was regarding the DCP's risk-based portfolio funds. He noted that this video was produced by Voya through their vendor, VisionMix, and indicated that additional videos are in development. He also presented a video filmed by staff of Mr. Moutes, the DCP's elected retiree representative on the Board, regarding the benefits of staying in the DCP during retirement. Mr. Gendjian provided feedback regarding the choice of camera angles and the use of text in the second video. Mr. Powell indicated that he would work to incorporate Mr. Gendjian's feedback and would take it into account for future videos.

Mr. Ciranna inquired regarding the status of the SECURE Act and whether it would affect the required minimum distribution (RMD) age. Mr. Powell responded staff did not have any updates but that the RMD age would increase to age 72 if passed. Mr. Montagna explained that the legislation was encountering some resistance in the US Senate. Mr. Geller commented that the pension systems and DCP have outside tax counsel who can provide updates as the Bill progresses through the Senate. He suggested that the Board reach out to Reed Smith or Ice Miller to be added on a list for updates. Mr. Mumma inquired whether the City has taken a position on the legislation given that it has a legislative agenda. Mr. Montagna indicated that he did not believe the City has taken a position on the legislation. Mr. Mumma suggested that the matter be looked into further to determine whether the City would be able to take a position and what role the DCP could play.

Following this discussion, **a motion was made Mr. Gendjian, seconded by Mr. Schoonover, to receive and file the monthly activities report for June 2019, including Communications and Administrative Updates; 2019 DCP Strategic Initiatives Update; Staffing; Committee Assignments; and Upcoming Board Meetings; the motion was unanimously adopted.**

9. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Mumma reminded the Board if there are any members who would like to serve on the ad hoc committee to notify Mr. Montagna.

10. ADJOURNMENT

The meeting adjourned at 10:32 a.m.

Minutes prepared by staff member Anna Ancheta.