

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF JUNE 18, 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

Not Present:

Linda P. Le
Hovhannes Gendjian
Neil Guglielmo

PERSONNEL DEPARTMENT STAFF

Steven Montagna, Chief Personnel Analyst
Daniel Powell, Senior Personnel Analyst I
Kevin Hirose, Personnel Analyst

OFFICE OF THE CITY ATTORNEY

Curtis Kidder, 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 9:03 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Thomas Moutes requested that the May 21, 2019, minutes regarding Board Report 19-17: DCP Core Fund Investment Management Services Request For Proposal (RFP), be revised from “Mr. Moutes asked about options giving the Board greater flexibility in awarding a contract” to “Mr. Moutes asked about options giving the Board greater flexibility in awarding a contract in order to help optimize the overall portfolio.” Additionally, Raymond Ciranna requested the fourth paragraph be revised from “LAFPP and LACERS are not subject to the City’s General Contracting Provisions” to “LAFPP and LACERS are not subject to all of the City’s General Contracting Provisions.”

A motion was made by Mr. Moutes, seconded by Robert Schoonover, to approve the minutes of the May 21, 2019 meeting as amended; the motion was unanimously adopted.

4. BOARD REPORT 19-20: DCP STABLE VALUE FUND AND CORE MENU INVESTMENT MANAGEMENT SERVICES REQUESTS FOR PROPOSAL (RFPs)

Steven Montagna reported that the Board’s Counsel and staff have been working on refining the investment procurement process for the Stable Value Fund and DCP Core Menu Investment Management Services RFPs. He indicated the objective is to have the mutual fund search process aligned with the institutional product procurement process. He explained the mutual fund search process and the investment consultant’s role in applying the Board-approved screening criteria to find funds for each investment mandate. He stated that information on the screened funds is presented to the Investments Committee. The Investments Committee then works with the investment consultant to analyze the data and develop recommendations for Board action. He indicated that designing the RFPs to mirror the mutual fund search process would eliminate the strict numerical ranking type of model that was typically used for the Board’s other service procurements.

Mr. Montagna stated that Board Counsel and staff are reviewing the City’s general contracting requirements to identify provisions that may not be applicable for investment management procurements. Curtis Kidder stated that based on a meeting with the Office of Contract Compliance and the City Attorney’s contract officer, Board Counsel and staff have identified certain provisions that may not be applicable for investment procurement processes.

Mr. Mumma directed staff and Board Counsel to proceed with the recommendations outlined for the Stable Value Fund and DCP Core Menu Investment Management Services RFP.

5. BOARD REPORT 19-21: DEEMED INDIVIDUAL RETIREMENT ACCOUNT (IRA) DESIGN FEATURES

Daniel Powell reported that at its January 16, 2018, meeting the Board approved strategic initiatives for the DCP that included researching the feasibility of offering a DCP Deemed IRA.

He stated that at its April 17, 2018, meeting the Board reviewed regulatory requirements and considerations for offering a Deemed IRA. He reported that staff has been working with the City Attorney's Office and outside tax counsel to conduct a full review of the regulatory requirements and the implications of offering a Deemed IRA. He stated that given the complexity of offering a Deemed IRA, staff is bringing broad considerations for Board direction.

Mr. Powell stated that a Deemed IRA is offered alongside an employer's existing tax-qualified retirement plan. He indicated that a plan sponsor has the option of offering a Traditional IRA, Roth IRA, or both. He reviewed the features of offering a Deemed IRA and provided an overview of the Traditional IRA and Roth IRA options. He reported on the benefits that would be available to participants by offering a Deemed IRA, which include the ability to contribute more to retirement each year; making lower-cost DCP funds more widely accessible; expanded savings versatility; withdrawal flexibility; and the ability to offer a spousal IRA.

Mr. Powell stated that only a few public sector plans offer a Deemed IRA due to its complexity; however, the plans that do provide the option have spoken favorably about it. He indicated the exception to this was State of Kentucky, but its concerns were primarily centered around the challenges of administering contributions via payroll deduction. He next reported on Voya Financial's (Voya) capabilities for administering a Deemed IRA, which includes administering both Traditional and Roth IRA accounts; maintaining separate recordkeeping for multiple IRA accounts held by a single participant; administering and accepting rollovers from external IRAs; accepting contributions via payroll deduction or via check; and maintaining IRA assets in either a single trust with 457 assets or in a separate trust. He stated that given the complexity of and administrative oversight required for payroll deduction contributions, staff does not recommend accepting contributions via payroll deductions.

Mr. Powell next reviewed regulatory requirements and considerations for offering a Deemed IRA. He stated that if a single trust is used and the Deemed IRA is found to be non-compliant with Treasury Department regulations, both the Deemed IRA and 457 plan could be dissolved. He stated that implementing separate trusts for the Deemed IRA and the 457 plan would protect the 457 plan if there were any regulatory issues with the Deemed IRA. He stated that the Los Angeles Administrative Code (LAAC) includes language providing the DCP the authority to administer a Deemed IRA. He stated that language incorporating the rules and requirements of offering a Deemed IRA would need to be included in the DCP Plan Document.

Mr. Powell reviewed the recommended design features of offering a Deemed IRA, which include: offering both Traditional and Roth IRA accounts; offering Traditional and Roth Spousal IRA accounts; requiring contributions via check rather than payroll deduction; providing that Deemed IRA eligibility include anyone who is a current or former DCP eligible employee; and creating a dedicated trust for the exclusive use of Deemed IRA accounts. He stated that by offering a Deemed IRA, DCP participants would have the ability to contribute more towards retirement. Retirees would also be provided with an additional savings option for adding assets to their DCP accounts.

Mr. Ciranna asked if staff is requesting approval of the Deemed IRA design features. Mr. Montagna responded that at this point staff is only looking for approval to proceed with developing proposed language for the Deemed IRA in accordance with the broad outline of design features in staff's report.

Joshua Geller indicated support for the Deemed IRA, thereby increasing retention of retiree participants and allowing additional options for participants to roll over their external retirement assets into the DCP. He asked if the additional administrative responsibilities would require additional staffing, and if there are any financial implications on Voya's ability to implement this service. Mr. Powell responded that he believes there would not be an additional cost to the DCP contract with Voya; however, there would be a fee charged to participants who utilize the option. With regard to staffing, he stated that operational time is spent reviewing payroll files and staff anticipates minimal impact if funding is provided via check versus payroll deduction.

Mr. Mumma asked for further explanation on the fee, as his inclination is to not charge an additional fee. Mr. Powell responded the fee would be for recordkeeping and that staff would not recommend charging a fee beyond that. Mr. Montagna stated staff would discuss the fee with Voya and indicated that participants typically pay an annual custodial fee for external IRAs, and the proposed Deemed IRA would be in alignment with that model. Mr. Mumma asked if City retirees who did not have a DCP account would be eligible to contribute to the Deemed IRA. Mr. Powell responded that staff recommends Deemed IRA eligibility include current or former DCP eligible employees; however, he indicated it is ultimately at the Board's discretion.

Mr. Ciranna asked if the fee would be one-time or an ongoing cost. Mr. Powell responded that other plans have it implemented as a quarterly recordkeeping fee. Mr. Ciranna asked if the City's Administrative Code provides sufficient flexibility for the DCP to create the separate Deemed IRA trust. Mr. Montagna responded that staff would work with Board Counsel and outside tax counsel to fully vet this issue as part of its specific implementation review.

Mr. Mumma indicated the City Controller and the Department of Water and Power (DWP) are developing new payroll systems, and the Board might consider allowing payroll deductions in the future. He stated that staff should inform both departments of this possible future request from the Board and allow them to plan to incorporate this feature into the payroll system. Mr. Powell responded that staff would communicate to the City Controller and DWP on the potential implementation of payroll deductions in the future. He also stated that Voya indicated they are working on additional functionality to allow contributions to a Deemed IRA via Automated Clearing House (ACH).

Wendy Macy stated that the potential risk of offering a Deemed IRA is that if a single trust is used for the Deemed IRA and 457 assets, and either plan is found to be non-compliant with federal regulations, the 457 plan could be dissolved. She asked if staff was confident that if two separate trusts were used, it would protect the 457 plan. Mr. Powell responded that advice to this effect was provided by outside tax counsel.

Mr. Mumma, Mr. Moutes, and Mr. Ciranna indicated support for the Deemed IRA design features as outlined in the report. Mr. Moutes stated that he is aware that some Roth IRA accounts allow participants to pay administrative fees separately versus having them reduced from their accounts, and indicated that this may be an option and should be researched. With regard to the spousal IRA design feature, he asked if there was a formal definition of married couples. Mr. Montagna responded that staff would research. Mr. Kidder stated that typically in California when a reference is made to a spouse, it includes domestic partners.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Moutes, to (a) receive and file staff's report and analysis regarding Deemed IRA design features; and (b) direct staff, working with Board Counsel and outside tax counsel, to develop a detailed set of recommended Deemed IRA design features for consideration by the Board; the motion was unanimously adopted.**

6. BOARD REPORT 19-22: AUTO ENROLLMENT PROGRAM (AEP) EXPANSION

Mr. Montagna stated that staff is working toward expanding the AEP with the City's employee labor organizations. He indicated that staff's meetings with several employee labor organizations have resulted in positive responses, as well as receiving interest in expanding the program beyond its current parameters. He stated that staff met with Mr. Schoonover, the Board's Labor representative to discuss additional options on promoting the AEP, such as an invitation from the Board Chairperson and Board Labor Representative inviting employee labor organizations to participate in a discussion about the AEP to solicit feedback on alternative models. He stated that alternative models might include a higher default contribution rate, an automatic enrollment process for current non-participating employees, or a higher yearly automatic escalation rate. He stated that Voya indicated that they are flexible and can accommodate multiple AEP models.

Following this discussion, **a motion was made by Mr. Geller, seconded by Mr. Schoonover, to authorize the Board Chairperson and Labor Representative to issue a communication to convene a meeting of interested employee labor organizations to discuss participation in and modification of the AEP; the motion was unanimously adopted.**

7. BOARD REPORT 19-23: 2019 NATIONAL RETIREMENT SECURITY WEEK (NRSW) CAMPAIGN

Kevin Hirose reported that each year the United States Senate passes a resolution for a nationwide National Retirement Security Week (NRSW) which this year is scheduled for October 20-26, 2019. He indicated staff's goal is to raise awareness of tax-advantaged retirement vehicles, increase financial literacy, and engage City employees in achieving and maintaining retirement income security. Mr. Mumma asked if staff was requesting approval of any additional items for 2019's campaign compared to prior year campaigns. Mr. Hirose responded that staff is requesting approval to create a DCP Instagram account to broaden its

engagement and outreach channels.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Mr. Schoonover, to (a) approve the proposed 2019 NRSW campaign; (b) direct staff to invite key DCP stakeholders to participate in the NRSW video campaign including elected officials, department heads, employee labor organization leadership, and DCP Board members; (c) approve the establishment of a DCP Instagram account; and (d) authorize the expenditure of \$2,500 for gift cards to be awarded to participants engaging with the interactive exercise; the motion was unanimously adopted.

8. BOARD REPORT 19-24: QUARTERLY REIMBURSEMENTS Q1 2019

Mr. Hirose stated that staff recommends approval of reimbursements from the DCP Reserve Fund to the Personnel Department for \$170,535.46 and to the City Attorney for \$30,047.99 for the quarter ending March 31, 2019. He indicated that staff is using the City Controller's Special Rates (41) for Fiscal Year 2018-19, and reimbursement percentages for the Personnel Department and City Attorney at 99.39% and 87.45%, respectively.

Following this discussion a motion was made by Mr. Schoonover, seconded by Mr. Geller, to approve reimbursements from the DCP Reserve Fund to the Personnel Department for \$170,535.46 and City Attorney for \$30,047.99 for the quarter ending March 31, 2019; the motion was unanimously adopted.

9. BOARD REPORT 19-25: PLAN PROJECTS AND ACTIVITIES REPORT: MAY 2019

Mr. Montagna stated that Isaias Cantu, Senior Management Analyst II, accepted a transfer opportunity with LACERS, effective June 23, 2019. Mr. Mumma stated the Board appreciated his time serving the DCP. Mr. Geller congratulated Mr. Powell on his promotion to Senior Personnel Analyst I.

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

10. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Moutes proposed that the Plan Governance & Administrative Issues Committee consider the option of staff preparing brief action-oriented minutes of meetings and preserving the recordings of meetings for public availability.

11. ADJOURNMENT

The meeting adjourned at 9:43 a.m.

Minutes prepared by staff member Kevin Hirose.