CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
SPECIAL MEETING OF SEPTEMBER 30, 2008 – 2:30 P.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:
Present:
Eugene K. Canzano, Chairperson
Bill Stein, Vice-Chairperson
Sangeeta Bhatia
Richard Kraus
Michael A. Perez
Kurt Stabel
Maggie Whelan

Staff:

Personnel:	Maryanne Keehn Steven Montagna Natasha Zuvich Ashley Stracke JoAnn Dominguez
City Attorney:	Richard Bobb

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 2:37 p.m.

2. PUBLIC COMMENT

None.

3. JPMORGAN ACQUISITION OF WASHINGTON MUTUAL BANK

Steven Montagna indicated that staff had requested this special meeting to brief the Board regarding the acquisition of Washington Mutual by JPMorgan Chase (JPMorgan). Mr. Montagna then proceeded to present information regarding Plan participants currently invested in Washington Mutual products. He stated that 9,425 participants were invested in the Liquid Savings account and 1,420 were invested in the Certificates of Deposit. Mr. Montagna further stated that of those invested in Washington Mutual products, approximately 298 participants had over the FDIC insurance limit of $250,000.

Mr. Montagna stated that on Thursday, September 25, 2008 Washington Mutual was closed by the Office of Thrift Supervision and that all of its assets were transferred to JPMorgan, including those held by City Plan participants. Susan Dalton, Principal Consultant for Mercer Investment Consulting, stated that JPMorgan assumed all liabilities and took over the deposits. Mr. Montagna commented that there were no losses, no FDIC payments, and no interruption of service at the participant level.

Ms. Dalton stated that she had participated in a conference call with JPMorgan on the night of September 25. She said that JPMorgan paid $1.9 billion in cash and was able to issue an additional $10 billion in equity on Friday, September 26, 2008. She indicated that it was important to note that JPMorgan had acquired the assets and was not a holding company, and that the company did not take on some of the liabilities such as lawsuits regarding mismanagement of former Washington Mutual.

Ms. Dalton further explained that before the acquisition took place, staff and Mercer Consulting had taken steps to explore other options for addressing the Washington Mutual situation. Ms. Dalton stated that Mercer and staff acquired information about potential replacement firms including their credit quality, size, capital ratio, diversity of investments, and whether interest rates were floating or guaranteed by quarter. She commented that it was necessary to look into each firm's investments because Washington Mutual had invested heavily in mortgage backed securities and this was an indicator of firm stability. Ms. Dalton indicated that Bank of America had shown the most interest.

Mr. Stein asked if staff had provided participants with information regarding the acquisition of Washington Mutual. Mr. Montagna responded that staff had posted a message on the Plan website on September 26 and a communication piece written in a question and answer format on September 29.

Mr. Montagna indicated that the acquisition of Washington Mutual by JPMorgan had caused no immediate changes for participants. He stated that the rates remained the same and that the quarterly rate guarantee on the Liquid Account was still in effect. He further stated that there were no changes to the FDIC insurance or LASP coverage.

Ms. Dalton indicated that LASP covered all assets in excess of the $250,000 FDIC insurance limit by requiring member banks to collateralize 110% of those assets. She further explained that these assets would be backed by AAA Municipal or Treasury Bonds. She stated that the Plan had started reporting participant assets in the Washington Mutual accounts weekly, as opposed to monthly to ensure that the collateralization would be more current. She indicated that the assets were held by a third party custodian bank chosen from a list approved by the State of California and that Union Bank of California was the custodian provider.

Ms. Bhatia commented that she had spoken with a participant who had contacted a Great West Customer Service Representative regarding the LASP program. Ms. Bhatia explained that according to the participant, the Customer Service Representative was not familiar with LASP. Gary Robison of Great West Retirement Services explained that when a Denver representative is unfamiliar with a topic, the call is generally transferred to a representative located at the local office in Glendale. Mr. Montagna indicated that information regarding LASP was located on the Plan website and asked Great West to ensure that all of the Customer Service Representatives had access to that information.

Mr. Montagna went on to state that prior to the announcement of the acquisition, staff had confirmed with the City Attorney that in the case of emergencies, the Board could establish a contract without a Request for Proposal. He stated that staff had identified several banks that were interested in the business.

Mr. Montagna indicated that staff and Mercer were researching various options that could provide Plan participants additional FDIC insurance. He stated that one possibility was to allocate assets deposited into the FDIC insured option among multiple providers. He explained that this would be similar to the Plan's asset allocation funds in concept. He stated that staff believed this option would allow the Board to reallocate assets more quickly should one fall into danger of insolvency.

Mr. Canzano asked if there were other Plans that used a similarly structured FDIC insured option. Ms. Dalton explained that there were no other plans that had developed this recordkeeping functionality. Mr. Canzano asked if participants would be allowed to allocate their investments to specific banks within the option. Ms. Dalton explained that this was not the concept and instead it would be one generic option from the participants' point of view. Mr. Stabel asked if splitting the assets among multiple FDIC insured providers might present a less attractive offer to interested banks. Mr. Montagna indicated that this was a possibility and something to be explored as part of the RFP process. Ms. Whelan asked if the topic would first be reviewed by the Investments Committee. Mr. Montagna stated that it would. Usha Archer of Great West Retirement Services stated that she would further research the feasibility of this concept. Mr. Montagna indicated that Ms. Archer had originally proposed the concept and thanked her for doing so.

Mr. Montagna next indicated that on September 23, 2008, Eugene Canzano, Susan Dalton, and he represented the Plan at a Los Angeles City Council Personnel Committee meeting. Mr. Montagna explained that the Committee had requested information regarding the status of Washington Mutual and the safety of Plan assets. Mr. Montagna stated that the Committee had requested a follow-up report in 60 days. Mr. Canzano indicated that the meeting had gone very well and that he had appreciated the opportunity to meet with the Committee.

Mr. Kraus asked whether there were any differences between JPMorgan and Washington Mutual with respect to the rates, guarantees, terms, and services. Mr. Montagna stated that at the time of the transition all current terms and conditions had remained the same, but stated further that staff would be monitoring this closely. Mr. Kraus asked what type of impact the acquisition would have on the contract with Washington Mutual. Mr. Montagna replied that as is the case with mutual funds offered by the Plan, there was not a direct contractual relationship between the City and Washington Mutual. Mr. Kraus stated that since the Plan did not have an individual contract with Washington Mutual, the firm could change the terms and conditions and that it would be best for the Plan to continue with the RFP process as soon as possible.

4. NEXT MEETING DATE- OCTOBER 21, 2008

5. ADJOURNMENT

A motion was made by Eugene Canzano, seconded by Bill Stein, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 3:22 p.m.

Minutes prepared by staff member Ashley Stracke.