

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
REGULAR MEETING OF JULY 17, 2007 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:

Present:

Maggie Whelan, Chairperson
Bill Stein, Vice-Chairperson
Eugene K. Canzano
Michael Carter
Joya De Foor
Richard Kraus
Rick Rogers

Staff:

Personnel: Steven Montagna, Personnel
Bryan Cowitz, Personnel
Natasha Zuvich, Personnel
JoAnn Dominguez, Personnel
Noreen Vincent, City Attorney

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:05 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Richard Kraus asked that the June 2007 minutes and future minutes reflect when Board members left and re-entered the meeting room. **A motion was made by Bill Stein, seconded by Eugene Canzano, to approve the minutes of June 19, 2007, as amended; the motion was unanimously adopted.**

4. BOARD REPORT 07-33: BUDGET STATUS REPORT

Maryanne Keehn indicated that staff was recommending a change in position authority for the Plan Manager Position from a Senior Analyst I to a Senior Analyst II. Ms. Keehn indicated that at the top step the higher level position would involve an additional cost of \$21,569. When asked by Mr. Kraus whether such a change would need CAO approval, Ms. Keehn answered affirmatively, but that the Board had responsibility over the funding of the Deferred Compensation Plan. Bill Stein responded that given the level of duties and responsibilities associated with the position, he felt that the Plan Manager position should already have been

allocated to Senior Analyst II and that he strongly supported the recommendation. Eugene Canzano also indicated his support for the recommendation. Ms. DeFoor echoed Mr. Canzano's and Mr. Stein's comments and indicated the importance of having appropriate staffing for management of the program. Ms. Whelan indicated that given the level of responsibilities a Senior Analyst II authority was appropriate for the Plan Manager position.

A motion was then made by Rick Rogers, seconded by Eugene Canzano, to approve reimbursement from the Deferred Compensation Plan Trust Fund #896 to the Personnel Department for \$64,574.38 for the quarter ending 3/31/07; and to approve a change in the position authority for the Plan Manager position to Senior Personnel Analyst II; the motion was unanimously adopted.

Maggie Whelan left the meeting at the conclusion of consideration of this item.

5. HARDSHIP WITHDRAWAL APPROVALS

Richard Kraus asked for additional clarification on the recommended approval amounts in Case Nos. 07-28 and 07-39. Following that explanation, **a motion was made by Eugene Canzano, seconded by Mike Carter, to approve full withdrawals in Case Nos. 07-28, 07-33, 07-34, 07-35, and 07-40 and partial withdrawals of \$35,000 (net) in Case No. 07-39; the motion was unanimously adopted.**

6. HARDSHIP WITHDRAWAL NON- OR CONTESTED APPROVALS

Case No. 07-37

The Board considered Case No. 07-37. The applicant was not present. Bill Stein recommended that staff contact the applicant to provide a list of potential medical assistance referrals. **A motion was then made by Eugene Canzano, seconded by Mike Carter, to approve a partial withdrawal of \$13,200 (net) in Case No. 07-37, as well as authorize additional disbursements based on continued documented income loss; the motion was unanimously adopted.**

Case No. 07-29

The Board next considered Case No. 07-29. The applicant was present. Natasha Zuvich indicated that the Board had previously approved a disbursement but that the applicant was requesting additional funds. The applicant indicated that since the previous Board meeting he had not received any of his IOD pay, his wife had experienced wage loss as a result of attending the Board meetings, his vehicle needed repairs and he had not been able to earn any overtime. After some discussion, **a motion was made by Eugene Canzano, seconded by Mike Carter, to approve a partial withdrawal in an amount equal to the applicant's lost overtime wages from 2001 to the present; \$1,000 for car repairs; and documented wage loss as a result of the spouse's two appearances at the previous Board meetings; the motion was approved by a vote of 5-1 (Canzano, Carter, DeFoor, Rogers, and Stein in favor; Kraus opposed).**

Case No. 07-36

The Board next considered Case No. 07-36. The applicant was present. Natasha Zuvich indicated that staff was not recommending approval of the application. The applicant described several events involving the relocation of her son as well as repossession of her

vehicle. Following her presentation and questions from Board Members, **a motion was made by Eugene Canzano, seconded by Mike Carter, to approve a full withdrawal in Case No. 07-36; the motion was unanimously adopted.**

7. INVESTMENT PROVIDER PRESENTATION: LOTSOFF CAPITAL MANAGEMENT

Joseph Pappo, Managing Director and Senior Portfolio Manager, and Alison Fitzgerald, Senior Managing Director, both with Lotsoff Capital Management, were present to review performance for the Lotsoff Small Cap Equity Fund. Ms. Fitzgerald began by briefly reviewing the firm's clients and management structure. Mr. Pappo then reviewed the performance of the Fund.

Mr. Pappo indicated that in 2006 the Fund's performance had been hurt relative to the Russell 2000 index because many of the index's most over-priced stocks continued to advance. He stated his belief that the market would eventually re-price these stocks and that Lotsoff's portfolio strategy was well-positioned to excel in coming time periods.

He noted that the last time the Fund had significantly under-performed the market it had experienced seven subsequent years of out-performance. He noted that the current concern over sub-prime loans could well be the triggering event to re-price many of the financial stocks which had benefited from the high level of liquidity in this market sector. He indicated that in 2006 these stocks and others had gone from being over-owned to exceptionally over-priced, and that this was part of a global phenomenon involving excess liquidity.

Mr. Carter asked Mr. Pappo how, given the severity of the under-performance, Lotsoff believed it could close the gap that had arisen over the last two years. Ms. Fitzgerald noted that in previous years the Fund had delivered out-performance in amounts greatly exceeding the current performance gap. Mr. Rogers asked Mr. Pappo to specify whether the Fund's performance was attributable more to being in the wrong sectors or the wrong stocks. Mr. Pappo indicated that it was more the case that the Fund had avoided stocks that were over-valued.

Mr. Kraus commented that the Fund's performance history suggested that it had a tendency to hit home runs and to strike out, and asked if the Fund was more volatile than it needed to be. Ms. Fitzgerald indicated that the Fund had only experienced one other period, 1994-1995, in which it substantially under-performed the market, and pointed out that this was followed by a year in which the Fund out-performed the index by 30%.

Mr. Kraus then asked what would be a reasonable period over which to judge the Fund in terms of its ability to outperform the index, and Mr. Pappo indicated that he believed over the full history of the Fund, which was approximately fifteen years. Mr. Pappo apologized for the Fund's performance and indicated he appreciated the difficult position the Fund's performance had placed the Board in, but that he hoped and expected performance would rebound soon. The presentation concluded.

8. BOARD REPORT 07-29: FIDELITY MAGELLAN AND LOTSOFF SMALL-CAP EQUITY FUND

Mr. Montagna indicated that the this report and recommendation had previously been brought to the Board but the City Attorney had advised the Board at that time not to take action until potential conflict-of-interest issues had been investigated and resolved. He stated that the City Attorney had advised staff that there did not appear to be any obstacles and that the Board could move forward on this issue.

Mr. Montagna indicated that staff's recommendation was to discontinue both the Fidelity Magellan as well as Lotsoff Small-Cap Equity Fund, but to provide participants approximately six months from when the announcement was made to when the fund would no longer be made available. He stated that during that time participants would continue to have the ability to move money in or out of the funds. He further indicated that staff was recommending that the Board hold out the option to retain the Lotsoff fund depending on its performance during the period prior to the scheduled elimination.

Mr. Carter indicated that he would support immediate elimination of the Lotsoff Fund. Mr. Montagna indicated that staff wished to provide the Board some flexibility in the event of a sharp improvement in performance. Mr. Kraus asked the consultant whether, with respect to the Magellan Fund, it was possible to provide some going-forward assessment of a fund's prospects for improved performance given some of the changes instituted by Fidelity. Mr. Dennison replied that Mercer was not prepared to project performance based on such changes, and noted that Fidelity had indicated changes to the Fund previously but that performance had been poor for a long period of time.

Following this discussion, **a motion was made by Mike Carter, seconded by Joya De Foor, to terminate the Fidelity Magellan Fund and Lotsoff Small-Cap Equity Funds approximately six months following the date of announcement of this elimination to Plan participants, with any existing assets mapped to the Plan's passively managed large-cap and small-cap funds, respectively, while retaining the option to postpone or cancel termination of the Lotsoff Capital Equity Fund based on ongoing monitoring of its performance over this six-month period; the motion was unanimously adopted.**

9. BOARD REPORT 07-30: BROKERAGE WINDOW

Joya De Foor left the meeting during consideration of this item at 10:55.

Mr. Montagna indicated that the staff report and recommendation were a result of discussion at the prior month's Board meeting discussion of this topic. Mr. Montagna indicated that staff was asking for authorization to release a Request for Information (RFI) regarding establishing an independent relationship with a brokerage window provider, and requesting authorization to develop a proposal for surveying participants on the brokerage window issue. Mr. Montagna indicated that with respect to the survey staff believed it made more sense to conduct a limited survey which would include everyone in the current OptionsPlus program as well as a representative sample of those not enrolled in OptionsPlus. He further indicated that doing so would allow the Board to use one of the survey options available under the new

contract with Great-West and avoid the expense of using an outside resource to administer the survey.

Cliff Ruff, a retired participant and former director of the Los Angeles Police Protective League, was present and indicated his interest in a brokerage window which would provide a much broader universe of investment choices for those with large account balances who had the ability to roll money out of the Plan to outside investment brokerages/investment managers. Mr. Rogers indicated he supported the staff recommendation and believed it was a creative way to move forward on this issue.

Following this discussion, **a motion was made by Rick Rogers, seconded by Mike Carter, (a) authorizing staff to develop a Request for Information for an independent SDBO service provider and return the proposed document to the Board for approval prior to releasing it; and (b) directing staff to work together with Great-West to develop a proposed survey (or surveys), as well as proposed survey delivery systems, and return to the Board for further discussion and approval; the motion was unanimously adopted.**

10. BOARD REPORT 07-31: DEEMED IRAs

Mr. Montagna presented a recommendation from the Plan's Investments Committee regarding adding a Deemed IRA to the City's Deferred Compensation Plan. Mr. Montagna began by indicating that a Deemed IRA was an IRA that would be sponsored by the City's Plan. He indicated that it could be a Roth IRA, Traditional IRA, or both, and that it could be offered within the 457 plan using the same investment options and administration infrastructure. He stated that the benefits of offering a plan-sponsored IRA included providing a home for Roth money, providing ease of payroll deduction for employees, and making the City's low-cost and familiar investments available on a wider basis.

Mr. Montagna next reviewed some of the key features of Roth and Traditional IRAs, indicating the differences in tax rules as compared to the 457 plan, the different contribution limits, and eligibility differences including deductibility for Traditional IRAs and contribution eligibility for Roth IRAs. He next provided the Board with some data regarding Plan rollovers and the potential fee savings on those rollovers, which equaled approximately one million dollars on funds previously rolled in.

Mr. Montagna indicated that to implement a Deemed IRA, the City's Administrative Code would need to be amended. He stated that the Board's Plan Document would also need to be amended and that a separate trust or custodial agreement would need to be established. With respect to the latter, he noted that this custodial arrangement could be with the current custodian for the Plan, Orchard Trust, a relationship already part of the City's existing relationship with Great-West Retirement Services.

He noted that that the Board would not be taking on any significant new fiduciary responsibilities given that the Plan already permitted IRA rollovers, and that the Board's key obligation was simply to develop the unique custodial arrangement. He further noted that the Plan would take on some additional communications burdens in terms of educating participants about the new benefit, but in response to a question from Mr. Stein, Mr.

Montagna stated that he did not see these communication challenges as being overwhelming for current staffing levels.

Mr. Canzano asked about the time that might be required in order to implement this. Mr. Montagna indicated that this would largely depend on the time needed to secure approval from the City Council and to adopt an ordinance. Mr. Montagna also indicated that the biggest potential source of delay might involve the creation of a new deduction code in the City's payroll system, if that was required, but that it might be possible to use an existing deduction code. Mr. Kraus asked if the decision regarding a Deemed IRA would impact consideration of potential changes to the Plan's core investment menu. Mr. Montagna indicated it should not, since the investment options available under the IRA would be identical to those offered in the 457 plan.

A motion was then made by Mike Carter, seconded by Eugene Canzano, to (a) endorse the addition of a Deemed IRA to the City of Los Angeles Deferred Compensation Plan, which would include authority to offer both a Traditional as well as Roth IRA, but initially only make the Roth available to Plan participants; and (b) authorize staff to transmit the necessary request to the City Council recommending amending the City Administrative Code to permit establishment of a Deemed IRA; the motion was unanimously adopted.

11. BOARD REPORT 07-32: STAFF REPORT

Mr. Montagna indicated that the staff report contained two attachments, and that the Board might find the NAGDCA guide regarding hardship withdrawals to be particularly useful. Mr. Stein indicated that while the guide did provide some useful information he noted its acknowledgement that the Internal Revenue Service (IRS) did not provide substantial guidance on this topic.

Mr. Kraus noted that the guide encouraged development of a policy and asked if the City's Plan had one. Mr. Montagna replied that the Board's policies were reflected in the Plan Document and in other reports transmitted to the Board. Mr. Kraus asked whether it would be more valuable to develop a formal policy. Mr. Montagna indicated that establishing a formal policy might be difficult given the variation seen in individual cases. Mr. Canzano indicated that he agreed it might be difficult to create policy that would be of substantial benefit. **Mr. Kraus then made a motion, seconded by Mr. Canzano, to request that the Board's Plan Governance & Administrative Issues Committee review the question of whether a formal policy guide regarding hardship withdrawals should be developed; the motion was unanimously adopted.**

12. GREAT-WEST COMMUNICATIONS REPORT

Eugene Canzano left the meeting at 11:30 and returned at 11:33; Mike Carter left the meeting at 11:40.

Gary Robison, Regional Manager with Great-West Retirement Services, presented the Great-West Communications Report. Mr. Robison updated the Board on the status of various items. He indicated that Great-West was making progress on the redesign of Plan

communication materials and was also developing a number of supplementary pieces, which he briefly described.

He spoke next regarding enrollment initiatives, indicating progress being made with the Departments of Recreation and Parks and Public Works. He discussed the current quarter's educational seminars, gatekeeper outreach efforts and work with the City's retirement systems. Rick Rogers asked for further clarification of the reference to working with "LACERS to clear up some participant issues" in Mr. Robison's report. Mr. Robison replied that there was actually just a single participant case in which some coordination of paperwork had been required. Mr. Robison's presentation concluded.

13. REQUESTS FOR FUTURE AGENDA ITEMS

None.

14. NEXT MEETING DATE – AUGUST 21, 2007

15. ADJOURNMENT

The meeting adjourned at 11:43 a.m.

Minutes prepared by staff members Steven Montagna, Natasha Zuvich and Bryan Cowitz.