CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING MAY 17, 2011 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

| **Present:** | **Not Present:** |
|---|---|
| Eugene K. Canzano, Chairperson | John R. Mumma, First Provisional Chair |
| Richard Kraus, Vice-Chairperson | |
| Clifford Cannon, Second Provisional Chair | |
| Tom Moutes, Third Provisional Chair | |
| Sangeeta Bhatia | |
| Michael Perez | |
| Bob Schoonover | |
| Margaret Whelan | |

Staff:

| | |
|---|---|
| Personnel: | David Luther |
| | Alex Basquez |
| | Steven Montagna |
| | Natasha Gameroz |
| | Ashley Stracke |
| | Claudia Guevara |
| City Attorney: | Curtis Kidder |

1. CALL TO ORDER

The meeting was called to order at 9:06 a.m.

2. PUBLIC COMMENTS

None. Mr. Canzano indicated that he and Mr. Montagna might leave the Board meeting early in order to make a presentation to the Los Angeles City Council (City Council) regarding the third-party administrator contract extension, and also some scheduling issues involving presenters. Given this, he stated that he would be taking agenda items out of order, starting with the investment provider presentation.

3. INVESTMENT PROVIDER PRESENTATION: FIDELITY INVESTMENTS

Jack McDonald, Vice-President Account Executive, and Ron Henry, Investment Consultant, both with Fidelity Investments, presented. Mr. Henry began by directing the

Board to page 9 of the report. He stated that on a quarterly basis, foreign stocks ended positive, with the exception of Japan. He indicated that there was ongoing global economic improvement with large cap European and developed market stocks outpacing emerging market stocks. He also indicated India and China had begun raising interest rates. Mr. Henry stated that year-over-year, the local currency return provided a significant boost in returns for US investors.

Mr. Perez asked how the impact of global warming would affect international equity markets. Mr. Henry stated that he would answer the question from an energy perspective. He indicated that France had created environmental policies that further regulated energy companies. He stated that Fidelity was following all such developments and taking them into consideration in their analysis of the markets.

Mr. Cannon asked how global and domestic debt ceilings affected the markets and Fidelity's approach to investing. Mr. Henry stated that while Fidelity takes macroeconomic factors into consideration, the firm primarily focused on microeconomic factors when analyzing investments. Mr. Cannon asked if Fidelity repositioned its strategies as a result of macroeconomic factors. Mr. McDonald indicated that Fidelity was monitoring such factors, but had not changed its strategy.

Mr. Henry directed the Board to page 16 of the report. He stated that the last time Fidelity gave a presentation to the Board, the Fidelity Diversified International Fund was categorized as "Foreign Large Growth" by Morningstar. He stated that in August of 2010 Morningstar began categorizing the Fund as "Foreign Large Blend" and indicated that Fidelity believed this categorization was more fitting to the fund.

Mr. Henry stated that the Fidelity Diversified International outperformed the MSCI EAFE Index three out of four quarters in 2010 and also that the fund had underperformed the index by approximately 20 basis points during the most recent quarter. He indicated the fund had increased its allocation to emerging markets by 5% since the firm's last presentation to the Board.

Referring to page 45, Mr. Kraus asked Mr. Henry to discuss the reasons for the difference in ten-year and five-year performance in terms of the Morningstar ranking. Mr. Henry stated that the firm benefited from the Morningstar re-categorization. Mr. Kraus asked what percentage of assets allocated to domestic equity would make it necessary to re-categorize the Fund from international to global. Mr. Henry stated that the Fidelity Diversified International Fund has consistently allocated approximately 9-10% to domestic equity. Mr. Henry stated that the fund was based on the MSCI EAFE Index, and was not considered a global fund.

Mr. Henry concluded by stating that Bill Bower, the portfolio manager, continues to use the same disciplined approach and process as he did when he first started managing the Fund. He indicated that on an annualized basis from April 2001 to the most recent quarter, Mr. Bower was able to outperform the MSCI EAFE Index by approximately 230 basis points. He also stated that Mr. Bower was able to outperform the index in both up and down markets.

Mr. Canzano stated that Board Report 11-29 would be discussed next.

4. BOARD REPORT 11 – 29: INVESTMENT MENU IMPLEMENTATION

Mr. Montagna stated that the objective of the investment menu redesign was to allow participants to make better choices with respect to where they invest. He stated that research has shown that when there are too many choices, many people become confused and actually make worse investment decisions. He continued by stating that there were two core elements to the restructuring: 1) reducing the number of core investment options and, 2) re-branding the funds by the asset class rather than the investment manager.

Mr. Montagna stated that the investment menu redesign had been a multi-year project undertaken by the Board and that the Board still needed to create an implementation table for those elements of the menu that have not yet been implemented and adopt an investment policy. He stated that the investment menu would consist of three tiers: 1) Profile Funds, 2) Asset Class Funds and 3) the Self-Directed Brokerage Option.

Mr. Montagna stated that the Investments Committee recommended that the remaining steps be implemented in phases. He stated that the Committee recommended implementing the Deferred Compensation Plan (DCP) Bond Fund and DCP Large-Cap Stock Fund during the first quarter of 2012. He indicated that the Committee recommended implementing the balance of the menu options (DCP International Fund, DCP Mid-Cap Stock Fund, and DCP Small-Cap Stock Fund) in the third quarter 2012 since these funds would require procurement processes. Mr. Montagna noted that the schedule provided was a general outline and that the Committee and staff would bring a more detailed schedule to the Board.

Mr. Montagna stated that the changes would be announced in a special mailing in October of 2011 and would be re-announced in the January 2012 newsletter. He stated that the initial changes would be implemented in February of 2012. Mr. Montagna continued by stating that the Committee recommended that the majority of the initial procurements take place in 2012 followed by fewer procurement processes in 2013 and 2014. He indicated that the procurement schedule outlined on page 6 of the staff report was developed by taking into consideration current contract terms.

Mr. Montagna continued by stating that the Committee also recommended using the new core options for the Asset Allocation Funds once the new options were fully implemented. He indicated that the Committee recommended that the Asset Allocation Funds be repopulated with the DCP Bond Fund and the DCP Large-Cap Stock Fund. He concluded his presentation by stating that the Committee recommended that the Board adopt the draft Investment Policy Statement (Investment Policy). He stated that the redlined text in the document reflected the changes requested by the Committee.

The Board then reviewed and discussed the recommendations in order.

Mr. Montagna requested that the Board adopt the Committee's recommendation to implement the investment menu changes in two phases. Mr. Canzano asked if the entire investment menu change would be announced at once. Mr. Montagna confirmed. **A motion was made by Michael Perez, seconded by Clifford Cannon, to implement the balance of previously adopted changes to the Plan's investment menu in two phases, with the first phase including the DCP Bond Fund and DCP Large-Cap Fund, and the second phase including the DCP Mid-Cap, DCP Small-Cap, and DCP International Funds, with announcement of all changes occurring at the same time; the motion was unanimously adopted.**

Mr. Montagna asked the Board to accept the Committee's recommended communications schedule outline. He stated that the Board would be presented with a more detailed schedule at a later date. Mr. Kraus asked if the timing of the communications was comparable to the timing of communications of past changes to the investment menu. Mr. Montagna indicated that participants would have approximately five months to make adjustments to their portfolios if they desired, which was slightly less time than in the past, yet still comparable. Mr. Kraus asked if the communications pieces would inform participants that the Self-Directed Brokerage Window (SDBO) may be able to provide some of the investment options that the Plan's Investment Menu may no longer provide. Mr. Montagna confirmed and stated that all of the choices should be available in the SDBO. **A motion was made by Richard Kraus, seconded by Clifford Cannon, to approve the implementation timeline proposed in Board Report 11-29; the motion was unanimously adopted.**

Mr. Montagna asked the Board to adopt the procurement timeline outlined in Board Report 11-29. Mr. Perez asked if the Committee or staff had given thought to spacing the procurement processes more evenly over the five years. He suggested that one method could be to make some of the investment contracts awarded in 2012 four-year terms instead of the maximum five-year terms. Mr. Montagna stated that these searches were primarily consultant driven, so it would not be as labor intensive from a City staff prospective. **A motion was made by Bob Schoonover, seconded by Tom Moutes, to approve the procurement timeline proposed in Board Report 11-29; the motion was unanimously adopted.**

Mr. Montagna asked the Board to adopt the Committee's recommendation to repopulate the Plan's Asset Allocation Funds (Profile Funds) with the Plan's new core options. Mr. Kraus asked when the Profile Funds would be reallocated after the underlying funds were changed. Mr. Montagna stated that since the asset classes would remain the same, staff did not believe that the allocation should be re-evaluated as a result of the changes to the underlying funds. Devon Muir, Principal Consultant with Mercer Investment Consulting (Mercer), stated that the allocations should be periodically reviewed, however, it was not necessary to re-evaluate them as a result of the changes to the underlying funds. However, he did indicate that the Profile Funds could be reviewed to ensure that the asset allocations were still in line with long-term projections and changes to the capital markets. Mr. Kraus asked if the Profile Funds should be re-evaluated as part of this process. Mr. Montagna stated that the Profile Funds were reviewed approximately two years ago, but indicated that a new review could be scheduled. **A motion was made by Richard Kraus, seconded by Bob Schoonover, to 1) approve repopulating the Plan's Asset Allocation (or "Profile") Funds with the Plan's new composite core options once those options are fully implemented and 2) direct Mercer Investment Consulting to review the composition of the Plan's Asset Allocation funds; the motion was unanimously adopted.**

The discussion continued onto the Committee's last recommendation regarding the adoption of the Plan's Investment Policy. Mr. Montagna highlighted Section 7: "Investment Selection and Termination." He stated that the Committee, staff, and the consultant developed a policy that would allow the Board to make changes to the underlying investment options more readily. He stated that the Investment Policy described each of the investment options, the responsibilities of the Board, consultant, and staff.

Mr. Kraus asked what the new criterion would be for monitoring funds. Mr. Muir stated that the Investment Policy outlines various benchmarks that the funds would be evaluated on. He indicated that one option was for the Plan to move away from a prescribed procedure based solely on quantitative performance. He stated that it was possible for a manager to underperform, but be retained due to qualitative factors. He stated that if something changed in an investment manager's qualitative factors, then Mercer would downgrade that fund's rating and report that to the Board. He indicated that the Investment Policy was flexible enough to allow the Board to remove a fund based on consistent underperformance as well. Mr. Montagna stated that the Investment Policy would allow the Board to move more quickly to remove poor-performing investment funds.

Mr. Kraus asked the Pension managers on the Board if they had similar policies in place. Ms. Bhatia stated that the Water and Power Employees' Retirement Plan (WPERP) Investment Policy states the short-term, medium-term, and long-term criteria for evaluating investments. She stated that she felt that this approach was beneficial in that it provided constraints/time-periods. She indicated that she valued both flexibility and structure. Ms. Bhatia asked if the Investment Policy could be brought back to the Board at a later date. Mr. Canzano stated that the document could be sent back to the Committee for further review.

Mr. Cannon stated that he believed that Section 1: "Purpose of the Investment Policy Statement" was stated very broadly. Mr. Kraus asked if it would help to change the second line to "...define the investment objectives..." Mr. Cannon indicated that he believed this helped. **A motion was then made by Tom Moutes, seconded by Clifford Cannon, to direct the Investments Committee to review the Plan Investment Policy Statement.** Mr. Perez indicated that he believed that it may be beneficial to move forward with the adoption of the document and refine it at the

Committee level. Mr. Montagna stated that the Board could adopt the Investment Policy as is, and direct the Investments Committee to review the termination policy. Mr. Muir indicated that he believed that the Board should adopt an Investment Policy shortly since the Plan did not currently have an individual document in place stating all of the Board's Investment Policies and Objectives.

Ms. Bhatia asked if the Plan had an Investment Policy in place. Mr. Montagna stated that the Board had investment policies in place, but not in one document. In addition, he indicated that the draft Investment Policy codifies the new objectives of the Board as it relates to the intended investment menu changes. Ms. Bhatia asked what the current process was for monitoring and reviewing the Plan's current investment managers. Mr. Montagna stated that currently Mercer provides quarterly investment reviews and contained within each report was the Plan's current policy in regards to monitoring investment managers.

Mr. Cannon asked how the Chair of the Investments Committee felt about adopting the Investment Policy as is and directing the Committee to review the investment fund termination policy. Mr. Kraus, the Chair of the Investments Committee, indicated that he felt comfortable with staff's recommendation. **Mr. Cannon withdrew his second to the motion. A motion was made by Michael Perez, seconded by Sangeeta Bhatia, to adopt the draft Plan Investment Policy Statement and direct the Investments Committee to review Investment Policy Statement Section 7: "Investment Selection and Termination" with regards to monitoring investment manager performance; the motion was unanimously adopted.**

Mr. Canzano indicated that Board Report 11-30 would be discussed next.

5. BOARD REPORT 11 – 30: STABLE VALUE FUND

Mr. Montagna stated that a Stable Value Fund can broadly be defined as a bond fund. He indicated that in a typical bond fund, the market value of the fund fluctuates. He stated that a Stable Value Fund allows participants to transact at a stable price such that participants are not subject to market fluctuations. He went on to explain how Stable Value Funds are administered. He explained that there were two levels of administration 1) the fund manager, which functions as the investment manager and 2) the wrap provider, which issue wrap contracts to provide the stable pricing for the fund.

Mr. Montagna indicated that wrap contracts allow participants to trade assets at the book value of the underlying assets as opposed to the market value. Mr. Montagna stated that there was a restriction on these funds called an "equity wash." He explained that an equity wash prevents investors from moving directly from a stable value fund to a "competing" investment option. He stated that this restriction was in place in order to prevent participants from chasing interest rates during times of extreme interest rate volatility. The Plan's equity wash states that in order for participants to move their assets out of the DCP Stable Value Fund and over to a competing option, they must move their assets to an equity fund and hold them there for 90 days. He indicated that the equity wash currently only applies to the DCP Bank Deposit Account.

Mr. Montagna stated that the Plan's wrap providers for the DCP Stable Value Fund have indicated that they may expand the equity wash to include the Plan's Self-Directed Brokerage Option (SDBO). He explained that the issue was brought up by the wrap providers at the time of the last RFP, however, was not instituted at that time. He stated that the wrap providers have decided to revisit the topic.

Mr. Montagna indicated that staff had reviewed Plan investment data over the past ten years and believed there was a questionable basis for applying the equity wash to the SDBO. He stated that over the past ten years there had been many different extreme market environments, however, the assets in the Plan's Stable Value Fund have remained constant.

Mr. Montagna indicated that staff recommended that the Board go on record in stating that the Plan did not see a basis for the additional restriction on Plan participants. Mr. Canzano indicated that he believed the Plan had strong justification for this position. He asked what influence a letter from the Board would carry. Mr. Muir indicated that many wrap providers had exited the market therefore creating a low supply of providers. He indicated that this gave the remaining wrap providers more power to request such restrictions on plans. He stated that he believed that it was still helpful to go on record with the Plan's concern.

Mr. Kraus asked if there was a way to track the funds that participants invested in within the SDBO. Lisa Tilley, with Great-West Retirement Services (Great-West) stated that from a recordkeeping perspective Great-West could only track assets moving into and out of the SDBO. Usha Archer, with Great-West, stated that general information was provided with the Great-West quarterly reports. Mr. Kraus asked if the equity wash could only apply to those participants looking to transfer funds directly from the DCP Stable Value Fund to a competing investment option within the SDBO. Ms. Tilley stated that equity washes were set at the Plan level and the Plan would not be able to apply the equity wash on a participant basis. Ms. Tilley stated that there were annual fees associated with the SDBO and additional processes that act as a barrier to participants moving from the DCP Stable Value Fund to a competing investment option within the SDBO. Mr. Kraus asked if these barriers could be discussed in the letter. Mr. Montagna indicated that the letter could be amended. He also indicated that the correspondence could be shared with other plan sponsors. **A motion was made by Richard Kraus, seconded by Clifford Cannon, approving staff's proposed correspondence from the Board to Galliard Capital Management regarding the application of equity wash provisions to the Plan's Self-Directed Brokerage Option as amended; the motion was unanimously adopted.**

Mr. Canzano indicated that the last item to be taken out of order would be Board Report 11-33.

## 6. BOARD REPORT 11 – 33: CONSULTING SERVICES REQUEST FOR PROPOSAL

Mr. Montagna stated that the approval of the Request for Proposal (RFP) is contingent on the review of the document by the City Attorney. He indicated that the review would impact the general contracting requirements and how the RFP process runs, however, the questions issued to the vendors, the review process, and evaluation weights would remain the same. Mr. Kraus asked if there was a conflict of interest if a potential respondent representative was present at the meeting. Mr. Kidder indicated that the meeting was open to the public. Mr. Muir voluntarily stepped out of the room.

Mr. Montagna stated that the RFP was divided into three parts in order to give the Plan the ability to contract with multiple vendors. He explained that staff believed that by separating the functions there was greater potential for the Plan to contract with providers with expertise in a specific field. He indicated that this was done with the last RFP, however, the Plan did not receive the responses it had anticipated. Mr. Montagna stated that staff intended to do additional advertising during this process.

Mr. Montagna stated that the RFP included the use of performance tests, which was similar to the last consulting RFP. He indicated that the performance tests of the last RFP revealed valuable information from respondents on what it would be like to work with them on an ongoing basis.

Mr. Canzano asked what the expected turnaround would be with regards to the City Attorney review. Mr. Kidder indicated that he did not expect it would take long since it was a standard document. Mr. Perez asked if there was a possibility that there would be significant changes to the RFP. Mr. Montagna stated that generally the information that changes is in regards to the general contracting provisions or where the information was located within the RFP.

Ms. Bhatia asked if Mercer currently provided the Plan with communications consulting. Mr. Montagna stated that the Plan currently has a contract with Mercer to provide communications consulting, however, he indicated that Mercer was rarely used for that purpose. Instead, he stated that most communications were generated by the Plan's third-party administrator, Great-West. **A motion was made by Clifford Cannon, seconded by Tom Moutes, to approve and authorize the release of the proposed Consulting Services Request for Proposal (RFP), subject to final approval as to form by the Office of the City Attorney and barring any substantive changes as a result of such review.**

Mr. Kraus indicated that he wanted to discuss items within the RFP. He directed the Board to questions 12 and 13 on page 15 and asked if a reference could be made regarding parent companies. Staff confirmed. Mr. Kraus then directed the Board to page 20 and asked what fee model was currently used by the Plan. Mr. Montagna indicated that the Plan was billed hourly, with the exception of the quarterly investment reviews, which were provided on a flat fee basis. Ms. Bhatia asked if the hourly rate was project based. Mr. Montanga indicated it was based on actual hours worked. Ms. Bhatia asked if they gave an estimate before the work was completed. Mr. Montagna indicated that estimates were given for lengthy projects.

Mr. Kraus directed the Board to page 34 and asked that the scale be added to the Investment Consulting Rating Factors. Mr. Montagna indicated that this would be added. Mr. Kraus asked if there was a benefit of asking for a five-year contract. Mr. Montagna stated that the contract over three years would need to be approved by the City Council. Mr. Kraus stated that continuity of service may be a factor given the upcoming changes to the investment menu. Ms. Basquez stated that the Plan could inform vendors through the RFP that the contract was for a three-year term with the potential for two one-year extensions. She indicated that this would give the Plan the ability to work with the vendor for two years and evaluate performance before deciding whether to extend the contract or conduct a new search process.

Mr. Moutes asked how the Plan advertised the last Consulting Services RFP and how staff intended to advertise this time to obtain a better response. Mr. Montagna indicated that advertisements have generally been made in large financial publications or through associations such as the National Association of Governmental Defined Contribution Administrators (NAGDCA). He stated that staff intended on also advertising in trade publications. **The motion was amended by Clifford Cannon, seconded by Tom Moutes, to approve and authorize the release of the proposed Consulting Services Request for Proposal (RFP) for a three-year term with the option of extending for two additional years, subject to final approval as to form by the Office of the City Attorney and barring any substantive changes as a result of such review; the motion was unanimously adopted.**

*The Board took a ten minute recess. Ms. Bhatia left the meeting at 11:00 a.m.*

**A motion was made by Michael Perez, seconded by Richard Kraus, to approve creation of a Review Committee consisting of Plan staff members as identified in Board Report 11-33; the motion was unanimously adopted.**

In regards to the third staff recommendation, Mr. Montagna stated that, if approved, Board members in attendance would be requested to sign the disclosure at the close of the meeting. **A motion was made by Richard Kraus, seconded by Michael Perez, to approve execution of the procurement disclosure form for all Board members and staff; the motion was unanimously adopted.**

## 7. MINUTES

Referring to page 4, Mr. Moutes asked that the language regarding his comment regarding the Commissioner's Ethics Pledge appropriately reflect his concern of whether the Pledge addresses Board members' fiduciary responsibility to participants. Staff indicated that this would be amended. Referring to page 7, Mr. Kraus asked that "Bylaws" be used instead of "document." Referring to page 9, Mr. Kraus asked if Mr.

Canzano's remark regarding carpooling should be included. It was determined that this should be struck. **A motion was made by Michael Perez, seconded by Clifford Cannon, to approve the April 19, 2011 minutes as amended; the motion was unanimously adopted.**

8. BOARD REPORT 11-31: THIRD-PARTY ADMINISTRATOR CONTRACT

Mr. Montagna stated that the City Council voted to approve to extend the third-party administrator contract with Great-West for an additional five-year term that morning. **A motion was made by Michael Perez, seconded by Richard Kraus, to receive and file Board Report 11-31 regarding the Board's request to City Council for authority to extend the contract with Great-West Retirement Services for third-party-administrative services for the period of 2012 to 2016; the motion was unanimously adopted.**

9. BOARD REPORT 11-32: ANNUAL REPORTS

Ms. Gameroz stated that staff recommended that the Board approve the draft 2010 annual report for the City of Los Angeles Deferred Compensation Plan. She indicated that copies would be distributed to the City's elected officials and employee organizations once approved.

Ms. Gameroz then gave an overview of the report. She stated that the number of participants in the Plan decreased to 40,136, which represented approximately 62% of the eligible employee population. She stated that Plan assets increased by 11.54% over the previous year to approximately $3.1 billion. Referring to page 6, Ms. Gameroz stated that 14,237 loans were outstanding as of December 31, 2010. She also indicated that the date would be amended. Referring to page 8, Ms. Gameroz stated that 2010 was the first year that loans and hardships comprised the largest percent of total dollars distributed. She indicated that 477 hardship applications were submitted in 2010 which represented a 47% increase. She stated that this was the largest number of hardship applications since the Plan's inception. Ms. Whelan asked what the primary reason for the hardships was. Ms. Gameroz stated that approximately 80% of the hardships were due to missed mortgage/rent payments.

Referring to page 9, Ms. Gameroz stated that the Plan had reached a record high in web transactions. In regards to page 11, Ms. Gameroz stated that the overall 2010 participant return on Plan assets was 7.72%. Ms. Gameroz concluded by stating that the Plan's 2010 budgetary status was included on page 12.

Referring to page 4, Mr. Kraus asked that the references to the SSgA Russell Small Cap Index NL be consistent. Staff confirmed that this would be amended. Mr. Kraus also asked that the graphs indicated "as of December 31." He asked that the same be added to the graphs on page 7. Staff confirmed that these changes would be made. Referring to page 11, Mr. Kraus recommended that staff add language to indicate that the return on Plan assets excluded those assets in the SDBO. Staff confirmed that this would be added.

Referring to the letter addressed to the Mayor and City Council, Mr. Perez indicated that he would like to highlight that the Plan was paid for by the participants and was administered at no expense to the City of Los Angeles General Fund. He also asked that the last sentence of the letter be expanded. In regards to the first paragraph, Mr. Perez asked that the first paragraph also be expanded to reflect specific projects the Plan has taken on over the course of the year. The Board agreed. Staff confirmed that this would be included. **A motion was made by Tom Moutes, seconded by Clifford Cannon, to approve the draft 2010 annual report for the City of Los Angeles Deferred Compensation Plan as amended; the motion was unanimously adopted.**

10. BOARD REPORT 11 – 34: ROTH 457 UPDATE

Ms. Stracke stated that staff recommended that the Board adopt the proposed changes to the Plan Document to account for Roth contributions. She then highlighted the main changes made to the document. She stated that a new definition was created for Roth contributions and that "Post-Tax Contributions" was the term used. She stated that the term used for traditional 457 contributions was "Pre-Tax Contributions".

Mr. Cannon asked if the Department of Water and Power and City Controller would have all of the changes to the payroll systems in place for the July 1, 2011 implementation date. Ms. Gameroz confirmed that the payroll system changes were on target. Mr. Cannon asked if the third-party administrator was also prepared for the July 1, 2011 implementation date. Ms. Tilley confirmed that Great-West was prepared.

Mr. Canzano asked if other plan sponsors were also in the process of implementing Roth 457. Ms. Tilley stated that only three other clients have moved forward with implementing Roth 457. She indicated that eight other plans were in the process of implementing Roth 457 within the next twelve months. She indicated that some plans had not yet implemented Roth 457 given their complicated payroll systems.

Mr. Kraus asked why Mercer recommended that Roth contributions not be used to purchase service credit. Ms. Gameroz stated that rolling after-tax dollars would not be beneficial to the participants since contributions were made with pre-tax dollars. Mr. Kraus stated that he was able to purchase service credit using after-tax dollars. Ms. Gameroz indicated that staff could revisit this topic with the consultant to determine if it was optimal or a requirement.

Mr. Moutes asked if the Plan had access to tax counsel given the complexity of the tax code. Mr. Montagna stated that the Plan has used Mercer to assist in making Plan Document changes. Mr. Moutes suggested that the Plan explore the use of outside tax counsel. Mr. Perez agreed. Mr. Kidder indicated that if the City Attorney's Office already has an existing contract in place for outside tax counsel, it may be possible for the Plan to also make use of it. He indicated that he would look into it and report back to the Board.

Referring to page 16, Mr. Kraus asked why a participant could not specify the money type for a distribution. Ms. Tilley stated that the Plan can specify which money types should be distributed from first, but it cannot be done at the participant-level. Ms. Tilley explained that this was a company decision based on the communication complexities regarding different money types and their related tax implications. Mr. Montagna stated that from staff's perspective, it added unnecessary complexity for the participant.

Mr. Kraus stated that it may be helpful to provide participants with a Roth 457 and Roth IRA comparison table. Ms. Gameroz stated that NAGDCA developed a comparison chart. Mr. Canzano indicated that he would be more inclined to make a statement that there were differences between the two plan types, however, would prefer not to spell out specific differences. Mr. Schoonover indicated that he agreed.

Mr. Montagna stated that he asked participants of the Roth communications focus group if they were aware of Roth IRAs. Most participants of the focus group were not. He indicated that such a comparison table may end up creating greater confusion among participants.

Mr. Canzano directed the Board to the communications piece. Referring to the third question from the bottom, he suggested stating that a qualified distribution would be defined later in the document.

Mr. Montagna indicated he asked the following questions of the focus group participants 1) what is the likelihood that you would read the entire document and 2) were there any portions that you had to re-read. He explained that all of the focus group participants indicated that they would read the entire document. He also stated that no focus group participant felt the need to re-read the information due to complexity.

Ms. Stracke recommended that the Board adopt the changes to the Plan Document and direct staff to return to the Board with further clarification regarding Mercer's position regarding the use of Roth 457 contributions to purchase service credit. **A motion was then made by Richard Kraus, seconded by Bob Schoonover, to 1) adopt the changes to the Plan Document and 2) direct staff to return to the Board with further clarification regarding the ability to use Roth 457 contributions to purchase service credit; the motion was unanimously adopted.**

11. BOARD REPORT 11-35: BOARD ELECTIONS

Ms. Stracke stated that the ballots were mailed on April 29, 2011 and that Election Day was May 20, 2011. She indicated that the Plan would receive the certified elections results from the City Clerk on June 3, 2011. **A motion was made by Clifford Cannon, seconded by Tom Moutes, to receive and file information regarding upcoming**

**elections for the Board of Deferred Compensation Administration; the motion was unanimously adopted.**

12. BOARD REPORT 11-36: STAFF REPORT

Ms. Gameroz stated that the counter activity, accrued leave, and hardship numbers for April decreased slightly. She noted that the Committee assignments had been included in the report. Mr. Kraus asked if staff could provide a chart in a future report showing the percentiles on participant contributions. Mr. Montagna stated that this information could be provided. Mr. Moutes stated that it may also be helpful to have corresponding salary information.

Mr. Cannon asked about the composition of the Committees. Mr. Canzano stated that once the elections for the LACERS and Pensions representative positions were completed, he would revisit the Committee composition. **A motion was made by Richard Kraus, seconded by Tom Moutes, to receive and file Board Report 11-36; the motion was unanimously adopted.**

13. GREAT-WEST PLAN SPONSOR SURVEY

Ms. Archer stated that Great-West would be sending the Board and staff a satisfaction survey by email. She also indicated that a survey would be sent out to participants later in the year.

14. REQUESTS FOR FUTURE AGENDA ITEMS

None.

15. NEXT MEETING DATE – June 21, 2011

16. ADJOURNMENT

**A motion was made by Margaret Whelan, seconded by Richard Kraus, to adjourn the meeting; the motion was unanimously adopted.** The meeting was adjourned at 12:10 p.m.