

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING AUGUST 20, 2013 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John Mumma, Vice-Chairperson
Tom Moutes, Second Provisional Chair
Sangeeta Bhatia, Third Provisional Chair
Clifford Cannon
Ray Ciranna
Robert Schoonover

Not Present:

Michael Amerian
Margaret Whelan

Staff:

Personnel:

Steven Montagna
Esther Chang
Paul Makowski

David Luther
Alejandrina Basquez

City Attorney:

Curtis Kidder

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:04 a.m.

2. PUBLIC COMMENTS

No public comments were made.

3. MINUTES

A motion was made by Mr. Ray Ciranna, seconded by Mr. Tom Moutes, to approve the July 16, 2013 Regular Meeting minutes; the motion was unanimously adopted. A second motion was made by Mr. Moutes, seconded by Mr. John Mumma, to approve the July 16, 2013 Special Meeting minutes; the motion was unanimously adopted.

4. BOARD REPORT 13-29: STRATEGIC PLAN REVIEW

Steven Montagna presented options for a half-day retreat to review and update the current Five-Year Strategic Plan. Mr. Montagna continued with the discussion by outlining options for the structure of the retreat. He stated that the format could be in a roundtable session with a schedule including presentations from staff on long-term objectives, presentations from the plan administrator, presentations from a consultant, and opportunities for the Board to present concepts. Eugene Canzano asked about the timing for identifying a venue and scheduling the session. Mr. Montagna stated that October/November would be the target. Mr. Ciranna asked if the meeting would also include a review of the current Strategic Plan, and Mr. Montagna replied that it would.

A motion was made by Mr. Mumma, seconded by Mr. Ciranna, to direct staff to develop a half-day Strategic Planning Retreat; the motion was unanimously adopted.

5. BOARD REPORT 13-30: OPTIONS TRADING IN SELF-DIRECTED BROKERAGE OPTION

Mr. Montagna began discussion on trading options by stating that staff had periodically received questions regarding trading options from participants. He said the challenge of this issue was that the subject matter was very complex. He then read highlights from the report and discussed the background of the Self Directed Brokerage Option currently offered through Schwab. He distributed and discussed handouts which identified two options for trading: 1) a Covered Call and 2) a Protective Put. He discussed these two options in detail and stated that the brokerage window option is already an option where the participant is operating independently.

Mr. Cliff Cannon asked what had taken place with other plans that allowed options trading. Ms. Chang replied that in communications with the State of California, a very small amount of their participants used the options. Mr. Devon Muir added that options would be used by a minimal amount of participants. Mr. Ciranna asked how long other states offered options. Mr. Muir indicated that Mercer had done a brief survey but not asked that question. Mr. Ciranna asked how many plan members would take advantage of the options. Mr. Montagna said he expected it would be only a handful at most. Mr. Ciranna said he was in support of the idea but raised a concern over how it would be communicated. Mr. Montagna replied that the plan should announce the change without appearing to promote it, and that this could be done through the newsletter and/or targeted to brokerage window using participants. Mr. Moutes asked if the transaction fees would cover the full administration costs. Mr. Montagna confirmed they would.

Mr. Canzano stated he had been personally approached by people asking for the ability to trade options. He asked how Schwab fees relate to other markets. Ms. Chang stated that the City Plan's fees were generally lower than several others staff had reviewed. Mr. Cannon asked about the impact to Great West. Ms. Lisa Tilley said that there was

no impact as all components for this functionality are already in place. Mr. Mumma asked about the roll out. Ms. Tilley said the feature could be turned on within a matter of days. Mr. Montagna said the communication may take a month or two. Mr. Canzano asked about the method of communication. Mr. Montagna said it could be via regular mail since there are not known email addresses for all brokerage window participants. Mr. Mumma stated that an announcement on the website should suffice instead of a physical mailing. He added that a mention in the quarterly newsletter could add to the communication. Mr. Montagna asked about the brokerage window login screen and if a notation could be added. Ms. Tilley said she would check with Schwab, but cited a concern with regulations established by Great-West compliance. Mr. Canzano said that the first focus should be about turning the feature on and then determining how to communicate it. He concluded with asking for a report about the communication plan at the next meeting.

A motion was made by Mr. Mumma, seconded by Mr. Cannon, to authorize trading of covered call and protective put options in the Deferred Compensation Plan Self-Directed Brokerage Option; the motion was unanimously adopted.

6. BOARD REPORT 13-31: BANK OF AMERICA CONTRACT AMENDMENT

Mr. Montagna discussed a proposed amendment to change the interest credit rating in the contract held between the Bank of America and the City of Los Angeles Board of Deferred Compensation Administration. He explained that the current contract has a different formula than the Bank of Americas interest crediting methodology which changed in February 2013. Mr. Canzano clarified that the change was 2 basis points from 10 to 12 and Mr. Montagna confirmed.

A motion was made by Mr. Moutes, seconded by Mr. Mumma, to approve the proposed amendment to the contract between the City of Los Angeles Deferred Compensation Plan and Bank of America reflecting a change to the interest crediting rate methodology and authorizing the Board Chairperson to execute the amendment; the motion was unanimously adopted.

7. BOARD REPORT 13-32: DOL FEE REGULATION COMPLIANCE UPDATE AND NON-PARTICIPANT FEE DISCLOSURE

Mr. Montagna discussed fee disclosure regulation required of the Department of Labor for retirement plans covered by the Employee Retirement Income Security Act and explained that the requirements do not apply to government 457 plans. However, he continued, complying with the regulations is voluntary and a common practice among other 457 plans. He outlined three (3) components to complying with the fee disclosure regulations: 1) Disclosure to current plan participants; 2) Service Provider to Plan Sponsor disclosure; and 3) Non-participant (aka general public) disclosure. He indicated

that the first two disclosure categories had been satisfied, and the only part that was unresolved was the disclosure to non-participants.

He indicated that electronic distribution - although comparably inexpensive to traditional mailers - is problematic because the City does not have email addressed for all non-enrollees. He indicated that there is a difference between disclosing information and the ability for people to understand the information, and stated that staff was looking for more effective ways to communicate complex information.

Ms. Sangeeta Bhatia asked about the fee disclosure already done in the Plan. Mr. Montagna said that the current disclosures in place are for participants only, whereas the regulations require disclosure to all eligible individuals, including non-participants. Ms. Bhatia replied that the information on the website shows fees and is fully disclosed if someone accesses the site. Mr. Robert Schoonover stated that there will be new employees and people getting pay raises and that these issues should be addressed during employee orientation. He added that there is a window of opportunity coming soon with respect to pay increases that should be taken advantage of. Mr. Montagna responded that for pay increases, staff could look at ways to encourage employees to increase their contributions. He said for new employees starting in a new tier, their needs would be different since the program can play a much larger role for their retirement. Mr. Mumma indicated that all sworn new hires receive a Deferred Compensation presentation in orientation and asked if it was the same for other systems. Ms. Bhatia confirmed the same was true for Department of Water and Power and Mr. Moutes confirmed the same for Los Angeles City Employees Retirement System (LACERS).

Mr. Schoonover stated that people don't know their benefits and it's the way the message is delivered. Mr. Canzano said that there are a large number of people who are not taking advantage of the City's Plan. Mr. Cannon stated that there needs to be more one-on-one communication and suggested that maybe an orientation specifically for Deferred Compensation may be the answer. Mr. Moutes cited a recent experience with three different Recreation and Park employees who had three completely different understandings about their retirement benefits. He added that LACERS is developing a strategy to reach out and extended an invitation for Deferred Compensation to join their effort. Mr. Ciranna echoed the comment by stating that Fire and Police Pensions is creating a similar effort. He then asked if Personnel could look into something more holistically. Mr. David Luther stated that, for a new employee, general orientation is a really small component of their new position and any additional communication with employees is going to need each department general manager's cooperation. He stated that he would discuss this topic with Ms. Maggie Whelan and possibly have a future meeting on the topic.

A motion was made by Mr. Cannon, seconded by Mr. Mumma, to receive and file the DOL Fee Regulation Compliance Update; the motion was unanimously adopted. A second motion was made by Mr. Moutes, seconded by Mr. Ciranna, to

direct staff to add its project list development of fee awareness; the motion was unanimously adopted.

8. BOARD REPORT 13-33: STAFF REPORT

Ms. Chang updated the board on current, upcoming, and completed projects. Ms. Chang made particular note that the counter activity and accrued leave numbers remained steady while the hardship numbers decreased and loan numbers increased. Mr. Mumma asked about the high loan figures. Ms. Chang stated that it may be due to more people enrolled and the time of year. Mr. Montagna added that larger returns equate to larger loan balance amounts. Mr. Canzano commented that the trend seems counter-intuitive. Ms. Chang stated that loan payments included retirees. Mr. Canzano asked about a chart spike in a certain period's deferrals. Ms. Chang stated that it could be attributed to accrued leave. She concluded the discussion by reviewing Roth accounts, training updates, and the project list.

A motion was made by Mr. Ciranna, seconded by Mr. Mumma, to receive and file Board Report 13-33; the motion was unanimously adopted.

9. REQUESTS FOR FUTURE AGENDA ITEMS

No requests were made.

10. FUTURE MEETING DATES

The next Regular Meeting is set for September 17, 2013.

11. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Moutes, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:15 a.m.*

Minutes prepared by staff member Paul Makowski.